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Chemicals

Initiation of Coverage

UBS Investment Research
North American Agricultural Chemicals

After the Bubble

26 March 2009

www.ubs.com/investmentresearch

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■ Fertilizer demand rebound unlikely before 2010

We expect fertilizer demand to decline again in 2009, due to sharply lower grower cash margins. Potash has the weakest near-term outlook as high prices continue to destroy demand. We see 20% lower US potash consumption in 2008/09 and declines of 5% and 11% for nitrogen and phosphate.

■ But improving grain outlook creates positive backdrop for fertilizer shares

Fertilizer share prices are driven by the grain price outlook. We don't see a return to 2008 peak grain prices absent a weather-driven supply shock but do see an upward bias to prices as global grain stocks tighten from reduced production this fall and an improving economy. US moves to increase ethanol use and reflation sentiment could also boost grain prices.

■ Buy ratings on Intrepid, Mosaic, and Potash Corp.

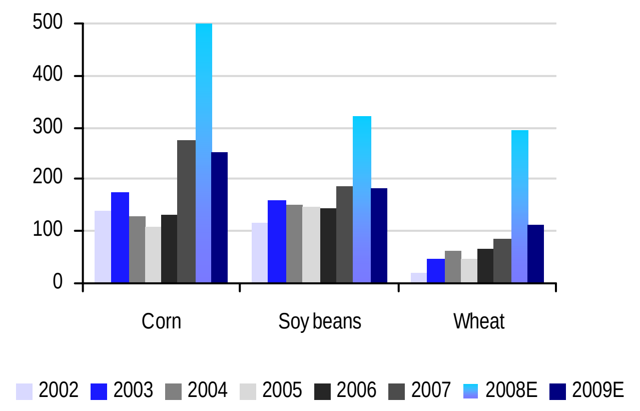
At current share prices we believe IPI, MOS, and POT have largely discounted the near-term price/volume uncertainty in potash. We are initiating coverage of Intrepid and Mosaic with Buy ratings and price targets of $27 and $63, respectively. We will also be co-covering Potash Corp. (and Agrium) with our Canadian colleague Brian MacArthur. Potash is Buy rated with a $105 PT.

■ Neutral on takeover-related names AGU, CF, and TRA

Announced and speculated M&A activity has led to a sharp run-up in the share prices of CF and Terra. As a result, we are Neutral. For Agrium, we remain on the sidelines given what we view as a fully-price bid for CF with the potential to go higher.

Chart 1: Crop margins are down dramatically

($/acre)

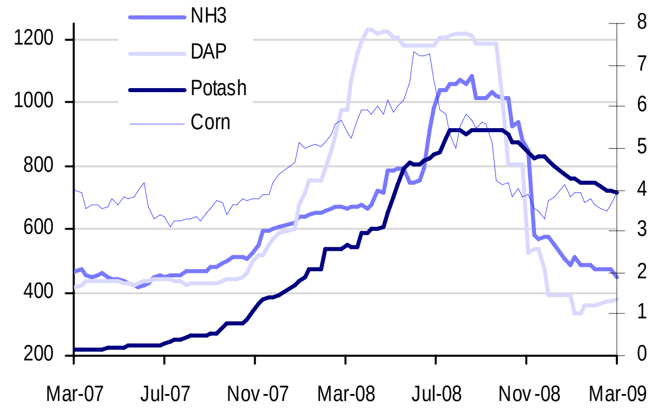


Source: Doane, USDA, Green Markets and UBS estimates

Chart 2: Has Potash bottomed?

(NPK $/mt)

corn $/bu



Source: Green Markets and UBS estimates

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Investment Thesis

Grain prices are down sharply from their 2008 peaks due to reduced demand growth arising from the global recession. This price drop has not surprisingly led to reduced fertilizer demand and prices and sharply lower share prices for fertilizer producers. While fertilizer demand will be down again in 2009 firming grain prices are a leading indicator of a likely demand and price recovery in 2010. Based on our current earnings outlook and positive view of the grain markets we see attractive opportunities in select fertilizer stocks. We are initiating coverage on Mosaic and Intrepid Potash with Buy ratings and price targets of $63 and $27. We will also be co-covering Buy rated Potash Corp. and Neutral-rated Agrium with our Canadian colleague Brian MacArthur.

We are initiating coverage on CF and Terra with Neutral ratings. These shares have risen with takeover bids and appear fully-valued in the near-term.

Lower Spring 2009 Plantings to Tighten Corn Market

We expect the March 31 Prospective Plantings report to indicate that growers currently plan to reduce corn plantings in 2009. The reasons are two-fold – corn margins relative to soy are down sharply from 2008 and corn still requires almost $200/acre more in working capital, a not insignificant consideration in a credit-constrained world. Lower stocks and a likely increase in ethanol demand could lead to a sharp rebound in planted corn acreage in 2010.

Ethanol Rate Increase Could Sharply Boost Corn Demand

Ethanol has been the key driver of increased demand for US corn**.** The USDA projects that ethanol will consume 31% of the 2008 corn crop a nearly 3-fold increase since 2003. Despite its highly questionable contribution to energy independence and lower greenhouse gas emissions significant support exists in Washington to increase the blend rate of ethanol from the current 10% mandate to as high as 15%. Each 1 point boost in the blend rate would increase corn demand by 500 million bushels or 4%. We see a high probability of a boost to a 11-12% blend rate in the next year.

Economic Recovery and Higher Oil Prices Support Firming Grain Markets

We would argue that grain demand is more economically sensitive than generally believed particularly now that corn is closely linked to oil prices when they exceed $50/bbl. Historically there was a relatively weak link between oil and corn prices. This relationship strengthened once ethanol started to account for more than 20% of US corn production and is particularly strong when oil is above $50/bbl. After ethanol the second primary driver of increased grain demand has been higher feed demand arising from higher incomes and increased meat consumption in emerging markets. This source of demand growth has receded with the global recession but should resume with economic recovery.

Cheaper Gas Benefits US Nitrogen Producers

Nitrogen prices are likely to be set by production economics for higher-cost exporter in the balanced-to-long market conditions we expect in 2009-2010. The US imports approximately 50% of its nitrogen needs and thus offshore prices determine the level of prices in the US market. The relative position of the domestic industry has improved markedly during the past few years as prices for natural gas, the primary cost component in the manufacture of nitrogen fertilizers, are now lower in the US than in western Europe or the Ukraine. We expect natural gas costs to remain higher in these locations creating an attractive price umbrella for North American producers to supply the domestic market.

Margins to Remain Above-Trend for Integrated US Phosphate Producers

While margins for US phosphate producers are down dramatically from their mid-2008 peaks we expect margins to remain well above trend for the next several years due to continued tight supplies and above-trend prices of the key raw material phosphate rock. We expect rock prices in the $150/mt range to sustain DAP margins of $150-200/mt for US producers like CF, Mosaic, and Potash Corp. that have captive rock supplies. While this margin level is below the $700/mt peak of June 2008 it is well above the $95/mt 10 year average.

Production Cutbacks Should Support Potash Price Levels

While potash has the best longer-term fundamental outlook of the three primary fertilizer nutrients it has the weakest near-term outlook. Domestic and offshore spot potash prices are currently 20-25% below their second-half 2009 peak levels. We believe that producers will be able to maintain landed prices at the $650-700/st range domestically and $600-700/mt internationally through the extensive production cutbacks now in place. We assume that the benchmark Chinese contract with Canadian and FSU producers will roll over flat. Market leader Potash Corp. has announced shut-ins equal to 30% of capacity for 2009. Beyond 2009 we expect global potash operating rates to firm with rising demand and little new capacity on line before 2012.

Key Risk Factors

- **Significant decline in grain and oilseed prices** due to a larger than expected US or global crop and/or continued demand destruction from a global economic recession. Lower grain prices could lead to reduced planted acreage and thus continued lower demand for all three fertilizer nutrients.

- **Reduction in ethanol mandate** – any reduction in the ethanol demand would be highly negative for corn demand and prices and hence fertilizer consumption. Ethanol’s energy and environmental benefits are highly debatable but opposition to ethanol appears fragmented. What is not debatable is that ethanol requires significant consumer and taxpayer subsidies and has helped to boost corn prices and farm income. The EPA is required to certify that ethanol has contributed to a significant reduction in greenhouse gas emissions in order to maintain the ethanol mandate.

- **Reduced discipline by FSU potash producers –** Potash producers in the former Soviet Union have adopted the Canadian strategy of matching production to demand over the last several years. FSU producers were more aggressive than their competitors in raising prices in the tight market conditions that prevailed in 2008. However the FSU producers are more reliant on the Chinese market than their North American competitors who have a large baseload market in the US. If the FSU were to cut price in order to come to an earlier close on their 2009 contract with China it would lead to a dramatic decline in potash prices.

Forthcoming Catalysts

- March 31 USDA Prospective Plantings report
- Chinese and Indian potash negotiations
- Increased ethanol mandate/EPA ethanol review
- Merger and acquisition activity. Please see table 1 and company specific section for additional details.

Agrium, CF Industries, and Terra Industries: Overview of Competing Offers

Agrium, CF Industries, and Terra Industries - three of North America's largest publicly-traded nitrogen producers - are locked in multiple rounds of bidding to complete competing acquisitions. We graphically depict the current status of the competing bids in the Table below:

Our three main thoughts involving these offers include:

(1) We think there is a higher likelihood of an Agrium-CF combination than a CF-Terra combination. We judge that CF shareholders may ultimately prefer to accept a premium for their stake instead of paying a premium to Terra shareholders.

(2) The stock prices of CF and Terra have both risen sharply since this battle for control began. We believe this eliminates a meaningful amount of any undervaluation that existed prior to these events.

(3) Should we prove correct and CF and Agrium agree to combine, we believe TRA stock could decline due to the elimination of any takeover premium in the stock.

Timeline: We summarize the key events as follows:

January 15, 2009: CF Initially proposed an all-stock exchange for TRA shares, offering $20.00 per share. Under the terms of the proposed deal, Terra shareholders would receive 0.4235 CF Industries share for each Terra share. That represented a 23 percent premium to Terra's January 14 closing price of $16.29. CF Industries shares closed at $47.23.

February 25, 2009: Agrium bid for CF Industries on February 25. It proposed to swap a package of (1) 1.00 AGU share plus (2) $31.70 in cash for each CF share. At the time of the offer, the value of this package totaled $72.00, though it has declined in value with the subsequent drop in AGU share price. CF said it would evaluate the offer, which Agrium said represented a 42 per cent premium to CF’s 30-day average share price. One condition of Agrium’s bid is that CF drop its proposed acquisition of Terra.

March 5, 2009: On March 5, Terra's Board of Directors unanimously recommended that Terra shareholders reject CF's $20.00 per share offer as not in the best interests of shareholders.

March 9, 2009: CF raised its bid for Terra to a maximum value of $27.50 per TRA share in CF stock . This is based upon an exchange ratio subject to a collar of between 0.4129 CF share and 0.4539 CF share for each TRA share. Separately, CF’s board also unanimously recommended that shaeholders reject Agrium’s offer

March 11, 2009: On March 11, Terra's Board of Directors unanimously recommended that Terra shareholders reject CF's $27.50 per share offer as not in the best interests of shareholders

March 12, 2009: On March 12, CF filed preliminary roxy materials to nominate three independent directors to Terra’s board: David A. Wilson, John N Lilly, and Irving B. Yoskowitz.

March 16, 2009: Agrium commenced an exchange offer for CF. Agrium CEO Mike Wilson stated he would consider raising his offer for CF to reflect additional value that CF’s board and management can demonstrate arising from the combination of the two.

March 23, 2009: CF raised its offer for Terra to a maximum of $30.50 per TRA share subject to the same exchange ratio with a collar of between between 0.4129 CF share and 0.4539 CF share for each TRA share.

March 24, 2009: On March 24, Terra's Board of Directors unanimously recommended that Terra shareholders reject CF's $30.50 per share offer as not in the best interests of shareholders.

Table 1: M&A Activity Has Picked up in the Past Month

	Potential Acquirer		
Potential Target	Agrium	CF Industries	Terra Industries
Agrium			
CF Industries	**Agrium's Latest Offer to CF**: On February 25, Agrium offered to acquire CF for a package of (1) $31.70 in cash, and (2) 1.00 share of AGU. One condition of this offer is that CF drop its bid to acquire Terra. On March 16, Agrium commenced an exchange offer for CF. Agrium CEO Mike Wilson has stated he would consider raising his offer to reflect additional value that CF can demonstrate arising from the combination of the two.		
	CF's Latest Response to Agrium: On March 23, CF's Board recommended that CF shareholders reject Agrium's original offer as grossly inadequate and not in the best interests of shareholders.	**CF's Latest Offer to Terra:** On March 23, has offered to acquire Terra for a maximum value of $30.50 in CF stock subject to a exchange ratio of between 0.4129 and 0.4539 share of CF per share of TRA. This is an improvement over its previous bid of $27.50 per TRA share suubject to the same exchange ratio.	
Terra Industries		**Terra's Latest Response to CF:** On March 24, Terra's Board unanimously recommended that Terra shareholders reject CF's $30.50 per share offer as not in the best interests of shareholders.	

Source: Company filings

Officially, CF Industries seeks to acquire Terra, while Agrium Seeks to acquire CF series of bids and counter bids.

On January 15, 2009, CF Industries announced a bid to acquire Terra Industries. As of March 24, 2009 CF proposes to exchange CF stock valued at a maximum of $27.50 per share for each share of Terra common stock, subject to an exchange ratio of not less than 0.4129 share of CF common and not more than 0.4539 share of CF common stock. We calculate that at a CF share price of $60.586 (i.e., $27.50 per TRA share / 0.4539 CF share) or below), the value of the offer to a TRA shareholder would be less than $27.50 per share.

On February 25, 2009 Agrium offered to acquire CF Industries for a cash and stock package initially valued at $72.00 per share consisting of (1) $31.70 per share in cash and one share of AGU common stock. One condition of Agrium's bid was that CF drop its bid to acquire Terra. CF rejected this proposal on March 9, 2009

Valuation and PT Basis

Our primary valuation method for fertilizer stocks is an EV/EBITDA multiple valuation which varies by nutrient. We have historically used the highest EV/EBITDA multiple for potash and the lowest for nitrogen, with phosphate in the middle. This multiple differentiation reflects our views on the long-term attractiveness of each nutrient. Potash has the most concentrated industry structure, the least amount of raw material volatility, and the greatest barriers to entry from a resource, time, and cost standpoint. Nitrogen has the most fragmented industry structure and the greatest raw material volatility as volatile-priced hydrocarbons like natural gas and naphtha comprise 75% of the cash cost of production. Phosphates rank between nitrogen and potash in terms of raw material volatility and industry fragmentation but like potash phosphate is an industrial mineral and the quality and life of the producer's reserve is the key driver of competitive position.

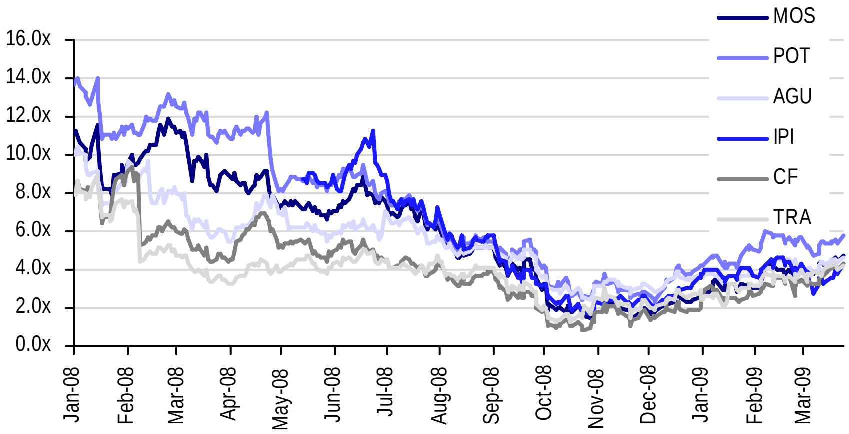
Table 2: Sum of the Parts Analysis—Value by Segment

Sum of the Parts (2009E EBIDTA)		POT	MOS	AGU	CF	TRA	IPI
Nitrogen	4.5x	2,126		2,843	2,005	2,399	
Phosphate	6.0x	2,861	9,370	1,219	798		
Potash	7.5x	22,471	15,359	4,297			1,744
Specialty Potash	8.0x						339
Distribution	4.0x		114	2,000			
Salt	6.0x						
Corporate	9.0x				16		
Esterhazy ownership switch		-	1,783				
Value of Equity Stakes		5,843					
Other	6.0x	1,397		64			
Total Business unit values		33,663	26,625	10,423	2,819	2,399	2,084
Add Net Cash (Subtract Net Debt)		(2,895)	1,428	(1,858)	273	573	117
Total ($mm)		$30,768	$28,053	$8,565	$3,093	$2,972	$2,200
Diluted shares		302.9	445.7	158.7	49.1	100.7	75.0
SOTP per share		$105.00	$62.94	$53.97	$62.98	$29.51	$29.36
Discount (Premium) to Market		17.5%	32.8%	35.4%	(15.4)%	0.3%	46.0%

Source: UBS estimates

Under our methodology Agrium appears to be the most undervalued fertilizer stock. Historically Agrium derived most of its earnings from its nitrogen operations but management has pursued a strategy of diversification particularly into retail over the last few years which has led to an improved business mix. However the bid for CF if successful would result in a marked shift in earnings mix back to nitrogen – on a pro-forma 2009 basis an AGU/CF combination would derive almost 40% f its earnings from nitrogen vs under 20% on a standalone basis. In our opinion such a shift would cause investors to once again value the stock primarily on its nitrogen business. Given the apparent change in target business mix and what we see as the high probability of Agrium making a higher-priced bid for CF, we have a Neutral rating on the stock.

Chart 3: EV/EBITDA Multiples Are Returning to Historical Norms



Source: FactSet

Table 3: UBS Estimates

3/25/09	Potash Corp POT	Mosaic MOS	Agrium AGU	CF Industries CF	Terra Industries TRA	Intrepid Potash IPI
Rating	BUY	BUY	NEUTRAL	NEUTRAL	NEUTRAL	BUY
Stock price	$83.52	$45.47	$39.24	$73.22	$28.66	$19.31
52-Week Low	47.54	21.94	22.08	37.71	11.21	13.80
52-Week High	241.62	163.25	113.88	172.99	57.64	76.24
Diluted Shares	307.5	445.7	158.7	49.1	100.7	75.0
Net Debt (Cash) (12/08)	2,894.9	(409.3)	1,858.0	(273.1)	(572.9)	(116.6)
Enterprise Value	$28,578	$19,857	$8,086	$3,322	$2,314	$1,331
UBS EPS estimates						
2008	$10.86	$4.43	$8.34	$12.15	$6.12	$1.61
2009E	$8.94	$5.40	$6.20	$6.65	$2.75	$2.62
2010E	$12.06	$4.85	$5.23	$7.50	$3.50	$3.12
UBS EBITDA						
2008	$4,495	$3,357	$2,042	$1,134	$1,066	$212
2009E	$3,767	$3,665	$2,346	$581	$533	$334
2010E	$5,410	$3,588	$2,177	$701	$641	$407
Trading Multiples						
P/E Ratio						
2008	7.7x	10.3x	4.7x	6.0x	4.7x	12.0x
2009E	9.3x	8.4x	6.3x	11.0x	10.4x	7.4x
2010E	6.9x	9.4x	7.5x	9.8x	8.2x	6.2x
EV/EBITDA						
2008	6.4x	5.9x	4.0x	2.9x	2.2x	6.3x
2009E	7.6x	5.4x	3.4x	5.7x	4.3x	4.0x
2010E	5.3x	5.5x	3.7x	4.7x	3.6x	3.3x

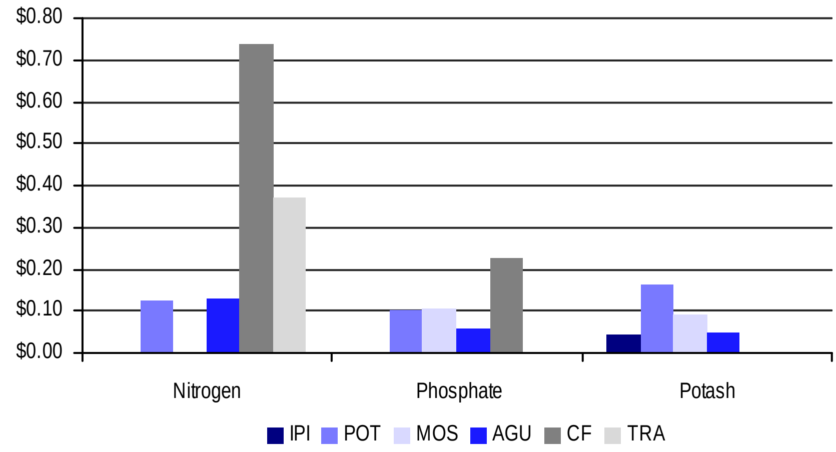
Source: FactSet and UBS estimates

Sensitivity Analysis

Fertilizer producers have significant operating leverage as summarized in the following chart and table.

Chart 4: Earnings Leverage to Fertilizer Margins

(EPS impact per $10/st margin increase)



Source: UBS estimates

Table 4: Earnings Leverage to Fertilizer Margins

	2009E Volume (k mt)	EPS Impact of $10/mt Margin Change	% of 2009E EPS
Ammonia			
Agrium	1,150	$0.04	1%
Terra	1,591	$0.11	4%
Potash Corp	1,570	$0.03	0%
CF	1,082	$0.14	2%
Urea			
Agrium	2,070	$0.06	1%
CF	2,295	$0.30	5%
Potash Corp	1,600	$0.04	0%
Terra	227	$0.02	1%
UAN			
Terra	3,045	$0.21	8%
CF	2,255	$0.30	4%
Potash Corp	1,550	$0.04	0%
Agrium	940	$0.03	1%
Phosphate Fertilizer			
Mosaic	6,300	$0.10	2%
Potash Corp	2,600	$0.06	1%
CF	1,736	$0.23	3%
Agrium	1,810	$0.06	1%
Potash			
Potash Corp	7,000	$0.14	1%
Mosaic	7,170	$0.09	2%
Agrium	1,540	$0.04	1%
Intrepid	590	$0.05	2%

Source: UBS estimates

Fertilizer share prices are highly correlated to the price of corn which is the primary fertilizer consuming crop in the US accounting for approximately 45% of domestic consumption.

Table 5: Stock Correlations With Corn Remain Strong Over Time

	Corn		
	2 year	5 year	10 year
AGU	0.90	0.92	0.93
CF	0.91	NA	NA
IPI	0.96	NA	NA
POT	0.93	0.93	0.94
MOS	0.93	0.91	0.91
TRA	0.79	0.90	0.91

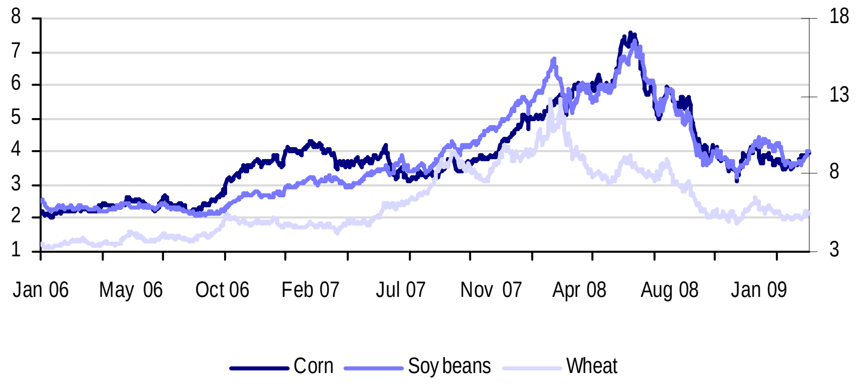
Source: FactSet

Grain Outlook

Corn, soy, and wheat prices have tumbled sharply from the record levels of first half 2008. Harvest month futures prices for corn, the key fertilizer consuming crop in the US, peaked at $7.55 in June 2008 and troughed at $3.09 in the first week of December. Soy prices fell nearly 50% over the same time period. Wheat prices which peaked earlier than corn and soy also tumbled 63%. Corn and soy prices fell initially as prospects for reduced US production due to a cold wet spring reversed with the onset of near ideal growing conditions during July and August. Rising prices also contributed to demand destruction in key markets such as feed, biofuels, and exports. Wheat prices fell as it became increasingly evident that world wheat production would achieve record levels in 2008 after three years of weather-related production shortfalls.

Chart 5: Prices Have Dropped From '08 Record Peaks...

($/bu corn) ($/bu soybean and wheat)

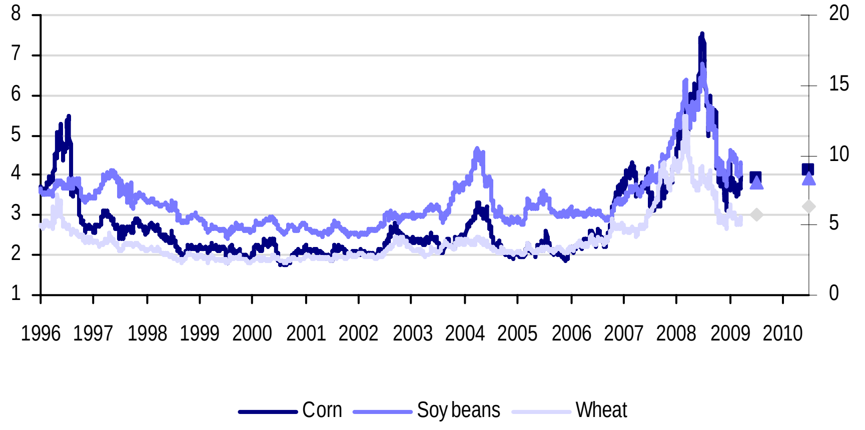


Source: FactSet

Harvest month futures prices for 2009/10 indicate that the market expects a continuation of the rebound that began in early December. Prices are anticipated to be above long-term averages but well below 2008 peaks.

Chart 6: ...but Are Expected to Remain Above Historical Averages.

($/bu corn) ($/bu soybean and wheat)



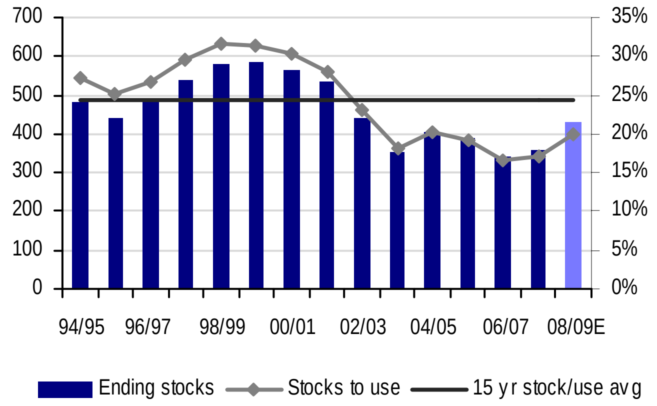
Source: FactSet

As with other commodities grain prices are inversely correlated to inventory levels. While still low by historical standards higher production has resulted in global grain inventories rising for the second year in a row in 2008/09 after an extended decline. The USDA projects world grain stocks/use to be 19.9% at August 31, 2009 versus the recent low of 16.6% in 2006 and the 15-year average of 24.2%. While the USDA has not yet made its global grain supply/demand forecast for 2009/10 we would expect the severe global recession to lead to reduced demand growth and further increases in inventories assuming no weather-induced production shortfalls.

A better than expected 2008 corn harvest and demand destruction from high prices and a slowing economy have led the USDA to dramatically increase its ending corn stocks estimate. In June 2008 the USDA was projecting 2008/09 corn ending stocks of 673 million bu or 5.4% of projected use, which would have represented the second-lowest ending US corn inventory ever, next to the all-time low of 5.0% in 1995/96. The USDA's current 2008/09 ending US corn stocks projection is now almost three times the June low on both an absolute and a relative basis – 1.74 billion bushels or 14.5% of projected use which is line with the 14.4% 15 year average. The change was driven by both improved production – up 365 million bushels due to a higher than expected yield from improved growing conditions and sharp declines in demand both from ethanol (down 400 million bushels or 7.5%) and exports (down 300 million bushels or 15.0%).

Chart 7: Rising Global Grain Stocks Still Below 15 Year Average

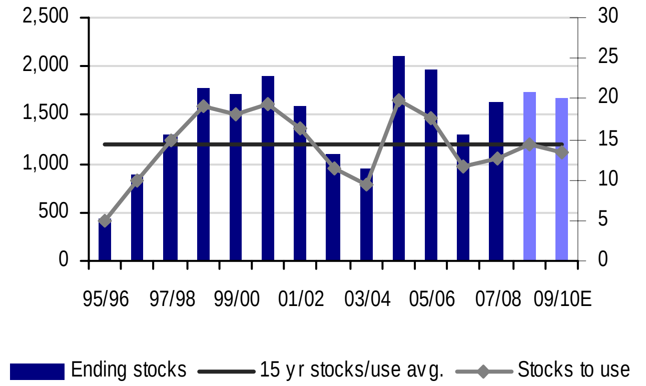
(mil mt) (ending stocks-to-use)



Source: USDA

Chart 8: U.S. Corn Ending Stocks Are Close to Average

(mm bu) (% ending stocks-to-use)

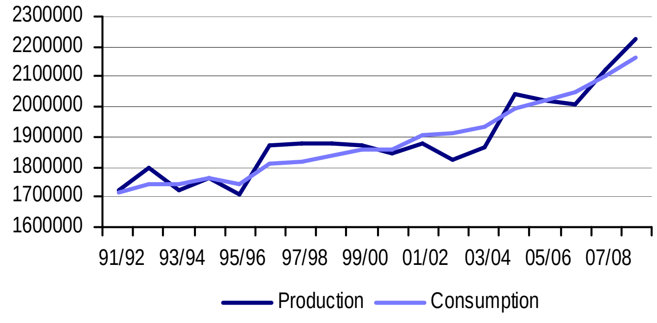


Source: USDA

2008 Grain Price Spike Was Largely Demand Driven

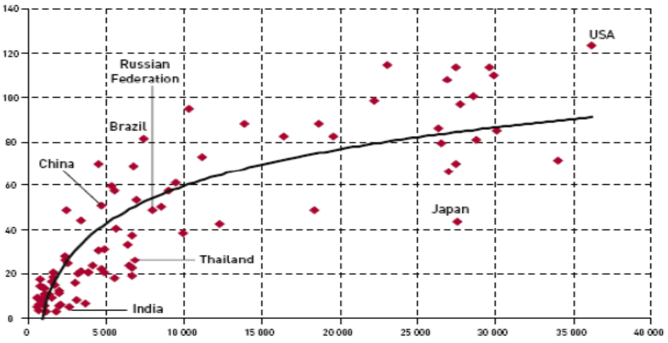
Unlike the prior peak in grain prices that occurred in 1996, the 2007-08 run-up in grain prices was largely demand-driven. Previous grain spikes were typically driven by supply shocks. Globally world grain and oilseed use has grown at a 2.3% cagr over the last five years a 100 basis point increase over the previous 12 years. While increased ethanol demand has been the key driver of increased US corn demand global grain demand growth has accelerated primarily due to rising food consumption. Uses other than corn for US ethanol production accounted for 87% of global growth in grain and oilseeds demand over the last five years.

Chart 9: Global Grain Production Exceeded Consumption for the Second Year in a Row in 08/09 (000 mt)



Source: USDA. Total grain includes barley, corn, millet, mixed grains, oats, rice rye sorghum, & wheat.

Chart 10: Meat Consumption Is Driven by Population and Income Growth (kg per capita vs. income per capita)



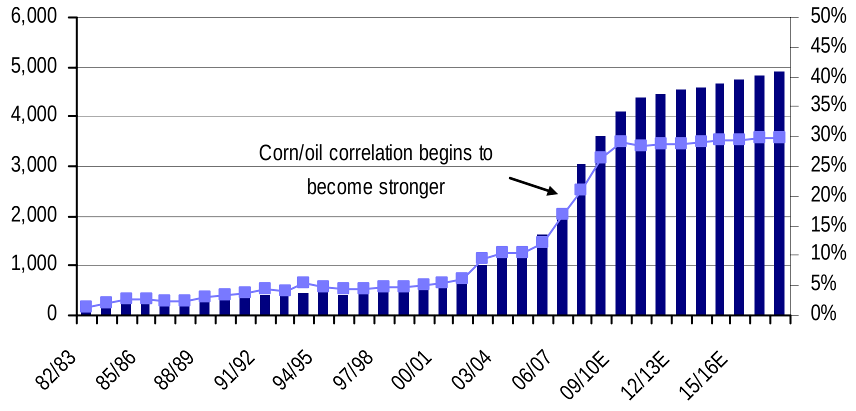
Source: Mosaic, Global Insight, FAO.

The 2008 spike in US corn prices was also demand driven unlike the previous peak in 1995. In 1995 a USDA-mandated 10% acreage set-aside in corn combined with a sharp drop in yields due to adverse weather resulted in a 27% year-over-year decline in the size of the US corn crop. This supply tightness was quickly reversed the following year through elimination of the set-aside and a return to trend yields with normal weather. The recent tightness in US corn supplies was achieved despite rising production. The US produced a record-sized corn crop in 2007, 10% larger than the previous record in 2004, and yet ending corn stocks in the 2007/08 marketing year were 25% below 2004/05 as demand surged by 20%.

Ethanol and to a lesser extent exports have been the drivers of increased demand for US corn. Ethanol is projected to consume 3.7 billion bu of corn in the 2008/09 marketing year or 31% of the 2008 corn crop. Corn used to produce ethanol has grown at a 25% annual rate since 2003 when it accounted for 1.2 billion bushels of corn or 11.5% of total US corn production.

Chart 11: Ethanol Now Consumes 30% of the US Corn Crop

(mm bu) (% of production)



Source: USDA

While ethanol's heavily-subsidized contribution to energy independence and greenhouse gas emission reductions is highly questionable it has been a significant contributor to increased corn demand and prices.

The December 2007 Energy Bill contained a significant expansion in the Renewable Fuel Standard (RFS) originally signed into law in 2005. As illustrated in the table below, the RFS requirement for corn-derived ethanol production was expanded from 7.5 billion gallons by 2012 to 15 billion gallons by 2022. The RFS also calls for an additional 21 billion gallons of renewable fuels by 2022 from sources other than corn grain, primarily cellulosic material.

Table 6: 2007 US Energy Bill Mandates Continued Corn-Derived Ethanol Production

(billions of gallons)

Year	Corn-derived ethanol	Cellulosic Ethanol	Biodiesel	Other biofuels	Total RFS
2008	9				9
2009	10.5		0.5	0.1	11.1
2010	12	0.1	0.65	0.2	12.95
2011	12.6	0.25	0.8	0.3	13.95
2012	13.2	0.5	1	0.5	15.2
2013	13.8	1		1.75	16.55
2014	14.4	1.75		2	18.15
2015	15	3		2.5	20.5
2016	15	4.25		3	22.25
2017	15	5.5		3.5	24
2018	15	7		4	26
2019	15	8.5		4.5	28
2020	15	10.5		4.5	30
2021	15	13.5		4.5	33
2022	15	16		5	36

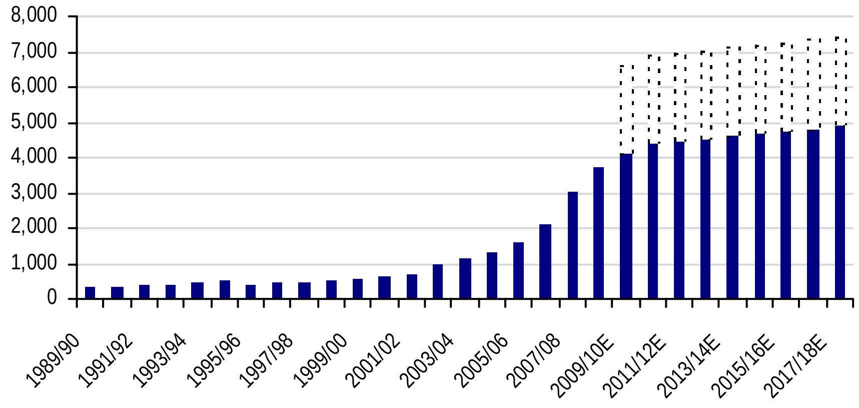
Source: Renewable Fuel Association

As a condition of the RFS, any renewable fuel produced from new facilities must achieve at least a 20% reduction in lifecycle greenhouse gas (GHG) emissions. The Environmental Protection Agency (EPA) is charged with calculating these emissions and to the chagrin of farm state legislators has indicated it will consider foreign farming and fuel-production activities in its decision.

Ethanol proponents are pushing for an increase in the 10% limit on ethanol in motor fuel to 15% or more in order to ensure that the 2007 RFS mandate is met. Ethanol production of 9.0 billion gallons in 2008 was well below average nameplate capacity of 12.4 billion gal due to low margins. Falling gasoline prices have offset much of the margin benefit of lower corn prices leading to reduced production rates. The increase in the 10% limit or "blend wall" is not without controversy. Ethanol is highly corrosive due to its hydrophilic nature and automakers do not currently warranty non Flex-Fuel vehicles that use motor fuel with greater than 10% ethanol. Overall we believe that the potential for an increased ethanol mandate is supportive of higher corn prices. The EPA has regulatory authority over this decision.

Chart 12: Increased Ethanol Mandate Would Sharply Boost Corn Demand

(mm bu)



Source: USDA and UBS estimates

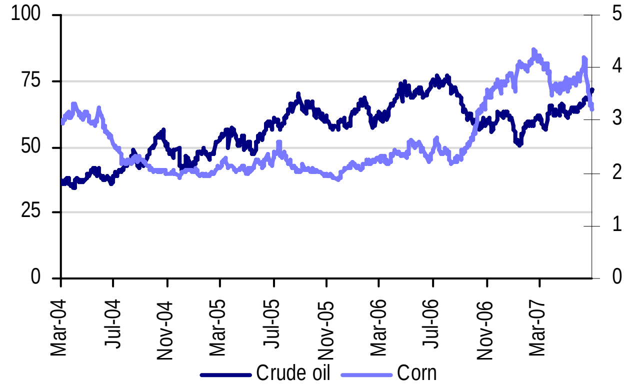
Efforts to increase the ethanol mandate are likely to keep corn prices firm. Each 1 point increase above the existing 10% mandate would increase corn demand by 500 million bushels.

The first half 2008 spike in corn prices also appears to have been linked to the run-up in oil prices. Historically there was a relatively weak link between oil and corn prices. This relationship strengthened once ethanol started to account for more than 20% of US corn production. Grain prices appeared to decouple from oil prices in late 2008 as oil retreated below $50/bbl. The corn/oil link seems strongest when oil is above $50/barrel, at these prices the relationship between crude oil and corn has an R^2 of 0.90 (the R^2 is 0.01 when oil is below $50 per barrel).

As ethanol consumed an increasing proportion of the US corn crop, corn prices became more closely linked with oil prices particularly when oil prices were above $50/bbl.

Chart 13: Corn/Oil correlation was historically weak……

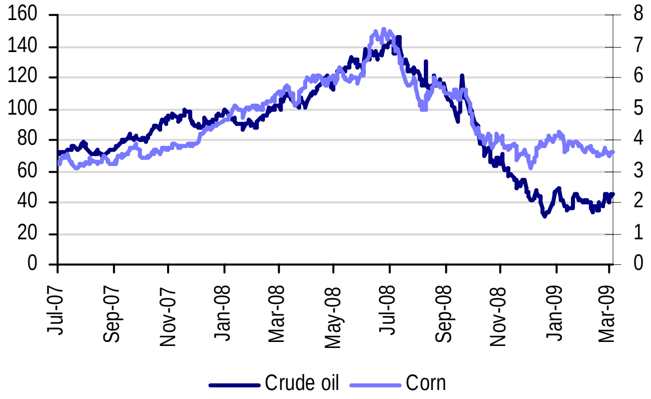
($/barrel) ($/bu)



Source: FactSet

Chart 14: ….until mid 2007 when ethanol demand soared

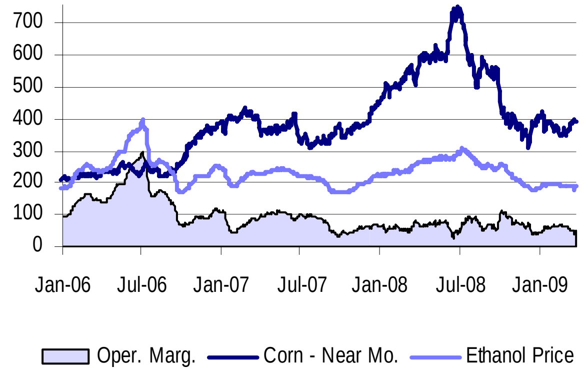
($/barrel) ($/bu)



Source: FactSet

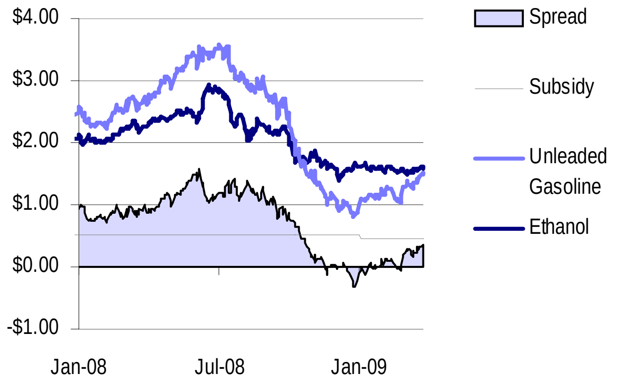
Chart 15: Ethanol Producer margins continue to be low

(corn cents/bu, ethanol and operating profit cents/gallon)



Source: RFA, Bloomberg

Chart 16: Gasoline blending margins now positive—but only because of subsidy (average ethanol rack $/gallon and gasoline price index)



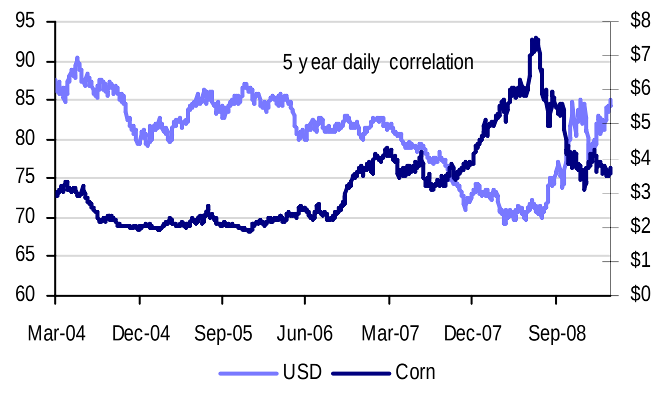
Source: RFA, Bloomberg

While margins for ethanol producers continue to be low, economics for refiners who blend ethanol into gasoline have improved. In the March 11 WASDE report the USDA increased its estimate of corn consumed for ethanol production in the 2008/09 marketing year by 100 million gal to 3.7 billion gal or 31% of total use in order to reflect increased demand from refiners. Including the $0.46/gal federal subsidy ethanol is currently $0.34/gal below gasoline thus incentivizing refiners to blend it into gasoline.

Other factors that appear to have contributed to the rise and subsequent fall of grain prices include the strength of the dollar and speculative interest in grain futures. The US is a large net exporter of grains and a cheaper dollar stimulates exports by making them more competitive in offshore markets. The unwinding of speculative grain positions in the second half of 2008 also contributed to the sharp fall off in corn and soybean prices.

Chart 17: Corn prices are inversely correlated with the USD

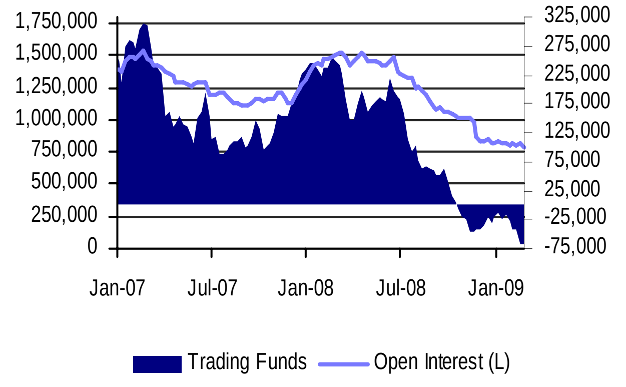
(US Dollar index) ($/bu corn)



Source: Bloomberg and FactSet

Chart 18: Corn net long positions have declined

(funds) (open interest)



Source: CFTC

Where Do Grain Prices Go From Here?

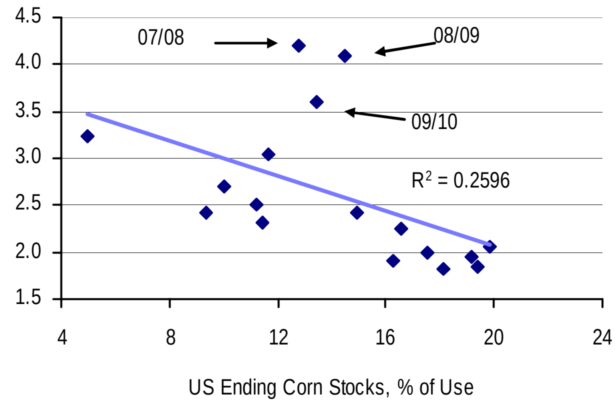
Relative to ending stocks US grain and oilseed prices appear overpriced unless there is a rebound in energy prices and or weather concerns emerge over the planting and development of this year's crop**.** As shown in the charts below corn, soy, and wheat prices are well above their historical levels relative to ending stocks/use, a pattern which first developed in 2007/08. Prior to the energy-induced run-up in corn prices in 2007, the relationship between price and ending stocks was much stronger for U.S. corn**,** with an R^2 of .76 vs. the current .26.

Near-term we believe corn prices could firm due to the normal pre-planting seasonal strength in corn prices and our view that planting intentions are likely to be below the USDA 86.0 million acre estimate due to shrinking corn margins.

As noted earlier because of the rising proportion of corn consumed for fuel ethanol production corn prices started to track oil prices closely in mid-2007. Rising corn prices in 2007/08 also helped raise soy and wheat prices as the three crops compete for acreage in the US and other markets. Grains have decoupled from their close relationship with oil only since last fall when oil prices went below $50/bbl. With oil advancing above $50 and continued chatter about raising the ethanol content of gasoline we believe corn prices are likely to remain above $4/bu into planting season. Once the planted acreage is known grain traders will start to focus on supply. During the growing season grain prices typically ebb and flow with weather patterns and their perceived impact on yield, which is determined primarily by weather, specifically heat degree days and moisture levels.

Chart 19: Corn prices vs. US corn ending stocks

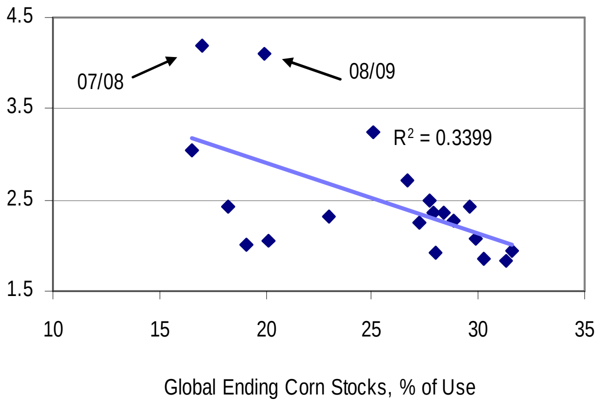
(y-axis= stocks, x-axis=$/bu)



Source: USDA

Chart 20: Corn prices vs. global corn ending stocks

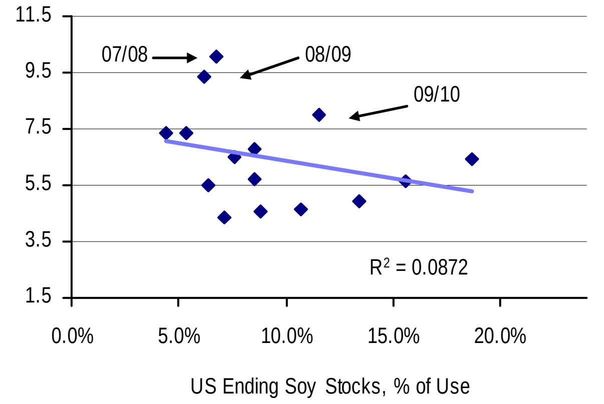
(y-axis= stocks, x-axis=$/bu)



Source: USDA

Chart 21: Soybean prices vs. US soybean ending stocks

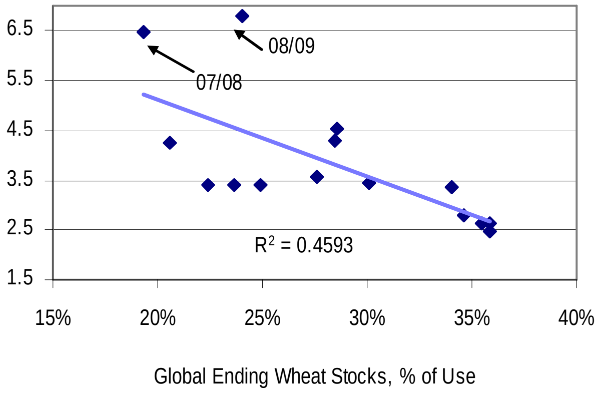
(y-axis= stocks, x-axis=$/bu)



Source: USDA

Chart 22: Wheat prices vs. global wheat ending stocks

(y-axis= stocks, x-axis=$/bu)



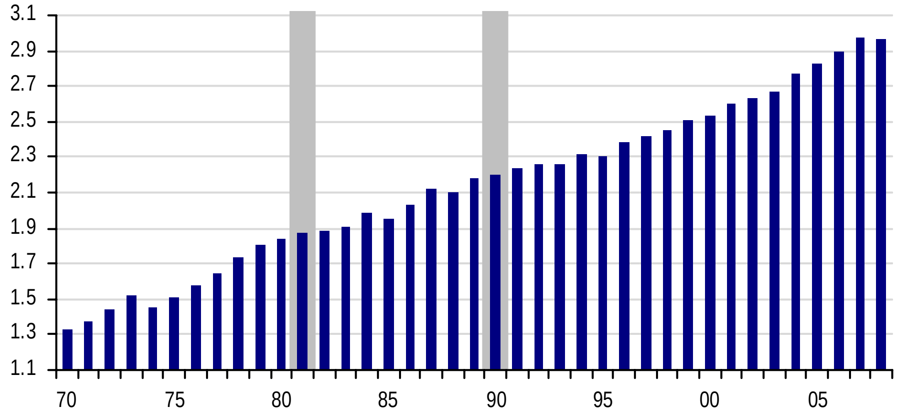
Source: USDA

Contrary to Consensus Corn Is Economically Sensitive

Fertilizer and seed producers like to assert that grain demand will remain robust despite an economic downturn as people still have to eat. To support their case they point out that global grain and oilseed demand did not decline during the recessions of 1981 and 1990. The three declines in world grain consumption in the last 40 years – 1974, 1985, and 1996, were all associated with production shortfalls which led to higher prices which rationed demand.

Chart 23: World grain and oilseed use has historically been recession proof

(bil tonnes)

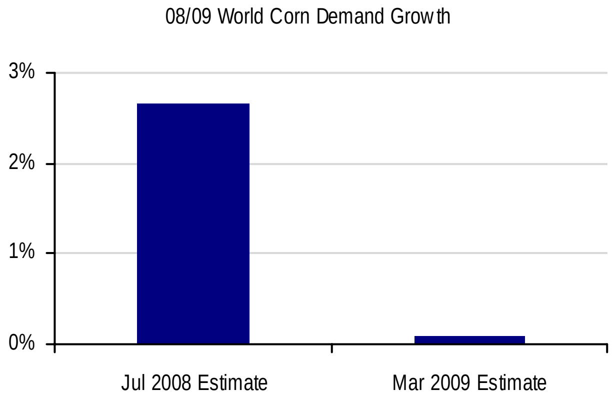


Source: USDA and Mosaic.

We would argue that grain demand is more economically sensitive than generally believed, more so now that corn is closely linked to oil prices when they exceed $50/bbl. While we do not expect grain demand to turn negative in 2009 we do think that growth rates will remain low without a global economic recovery. We would note that the USDA has sharply reduced its projected global corn growth for 2008/09 due to falling feed demand arising from declining growth in meat consumption. We would also note that corn growth rates fell dramatically in Asia in the 1998 economic downturn which reduced incomes and meat consumption growth.

Chart 24: USDA slashes 2008/09 global corn demand estimate

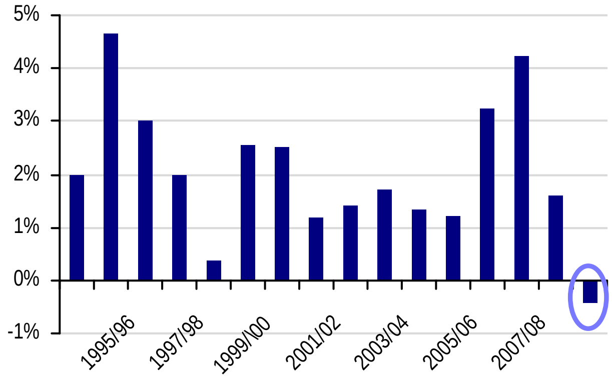
(y/y growth rate)



Source: USDA

Chart 25: due to lower projected Asian corn demand in 2008/09

(y/y growth rate)



Source: USDA

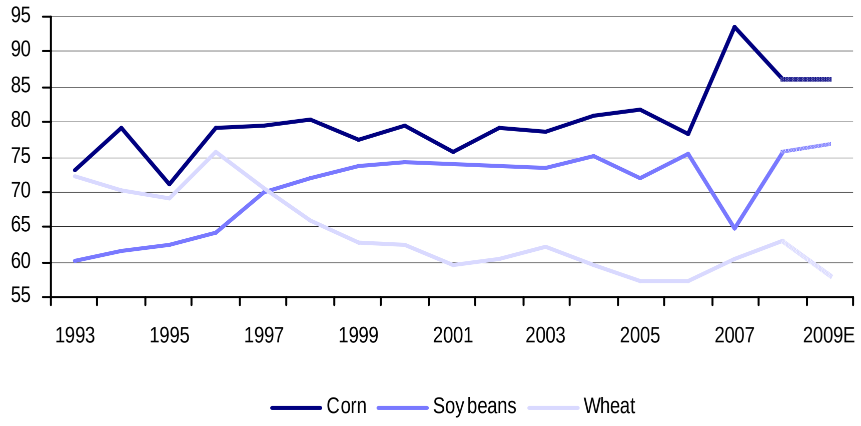
Spring 2009 US Planting Outlook

The USDA expects growers to slightly reduce acreage for the three major crops (corn, soybeans, and wheat) this spring in response to declining prices and margins. Total acreage for the three major crops is forecast to be down 4 million acres or 2%. The USDA expects corn acreage to be flat and soy up slightly at the expense of wheat and to a lesser extent cotton. The USDA is currently surveying grower planting intentions which will be released in the March 31 Prospective Plantings report.

While the soy/corn ratio declined during the first two weeks of March when the USDA was conducting its survey for the *Prospective Plantings* report we still expect farmers to indicate they plan on reducing corn acreage in 2009.

Chart 26: USDA projects flat corn acreage in 2009, higher soy & lower wheat

(mm acres)

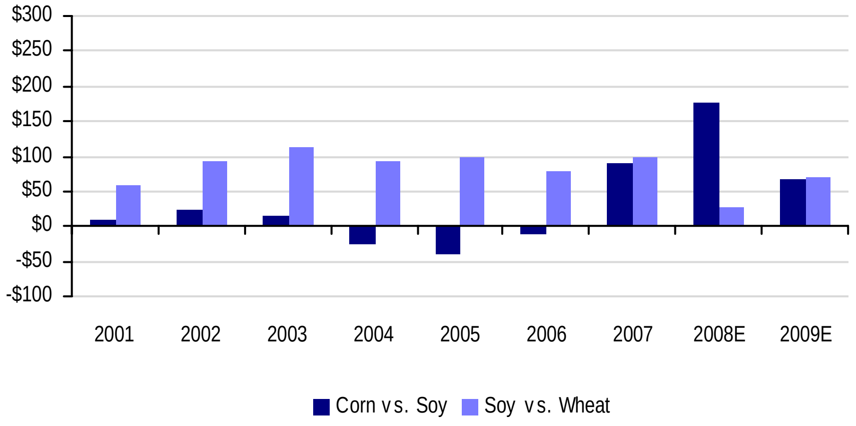


Source: USDA

We expect the March 31 Prospective Plantings report to indicate that growers currently plan to reduce corn plantings in 2009. The reasons are two-fold – corn margins relative to soy are down sharply from 2008 and corn still requires almost $200/acre more in working capital, a not insignificant consideration in a credit-constrained world.

Chart 27: Corn margin advantage vs. soy is down sharply versus Spring 2008

($/acre)



Source: Doane, USDA, and UBS estimates; Excluding land costs

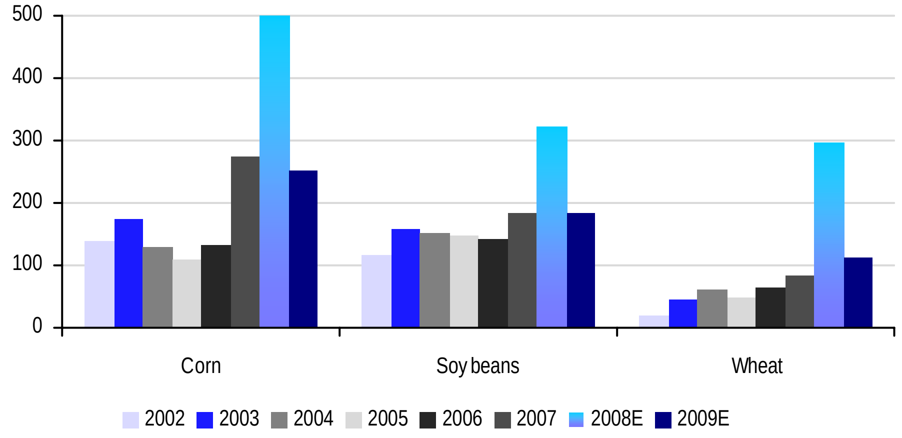
Our grower cost of production model indicates that corn currently has a $62/acre variable cash margin advantage over soybeans versus $177/acre a year ago.

Lower prices have resulted in a sharp decline in expected grower returns this spring for all three major US crops. Compared to last spring corn and soy prices are down 33% and 35% respectively while costs are flat for corn and up modestly for soy. The soy/corn ratio has declined from 2.4 times in January to 2.1` times recently, which would seem to indicate a shift back to corn acres based on the old rule of thumb that a soy/corn ratio above 2.4 favours beans and a ratio of less than 2.0 favours corn. We find per acre cash margins to be a more accurate assessment of the relative attractiveness of corn vs soy for the grower.

The *Prospective Plantings* report itself influences intentions through its impact on relative soy/corn price moves. Ultimately weather will determine the final corn/soy mix. An early dry spring favours corn plantings while a late wet spring causes a shift to soybeans which can be planted into June.

Chart 28: Crop margins are expected to be significantly lower in '09

($/acre)



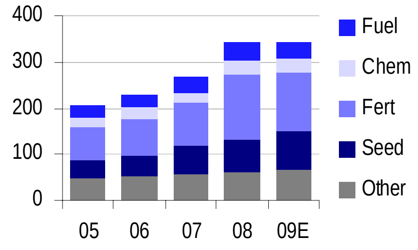
Source: Doane, USDA, and UBS estimates

The current break-even 2009 corn price for growers who own their land is $2.33/bu. Farm-gate realizations are typically $0.35/bu lower than the December futures price which is currently $3.90/bu. Using the USDA's average leased land rate of $110/acre the breakeven price is $3.02/bu.

Corn margins have deteriorated relative to soy this year as fertilizer prices remain high and as all students of agriculture know corn requires significantly more fertilizer than soy. While producer prices of nitrogen and phosphate have declined sharply versus their mid-2008 prices most growers purchased their 2008 fertilizer prices in late 2007/early 2008 at prices substantially below the summer peaks. Potash prices have not declined as much from their mid-2008 peaks but like N and P are well above last spring's levels.

Chart 29: Corn cash costs flat in '09

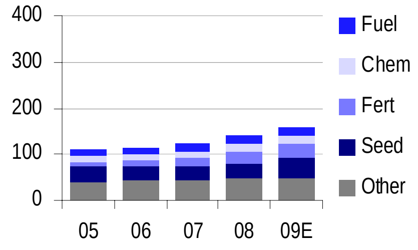
(corn cash costs, $/acre)



Source: Doane, USDA, and UBS estimates

Chart 30: Soy costs up modestly in '09

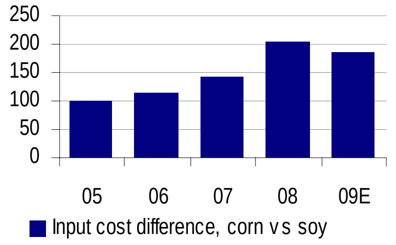
(soybean cash costs, $/acre)



Source: Doane, USDA, and UBS estimates

Chart 31: Corn is a more expensive crop

(corn versus soybean cash costs, $/acre)



Source: Doane, USDA, and UBS estimates

Lower planted acreage this spring could lead to a tighter corn market in 2010. A 3 million acre reduction in acreage planted from the USDA's 86.0 million projection would reduce stocks to use to 10% at the end of the 2009/10 marketing year versus the current USDA forecast of 13.4%, assuming no change in use or yield from the USDA projection.

Table 7: USDA forecast for flat corn acreage this spring looks optimistic to us

	2006/07	2007/08	2008/09E	USDA 2009/10E	UBS 2009/10E
Planted (mm acre)	78.3	93.5	86.0	86.0	83.0
Harvested	70.6	86.5	78.6	78.8	76.0
% of Planted	90.2%	92.5%	91.4%	91.6%	91.6%
Yield per acre (bu)	149.1	150.7	153.9	156.9	157.0
Beginning stocks	1,967	1,304	1,624	1,740	1,740
Production (mm bu)	10,531	13,038	12,101	12,365	11,936
Imports	12	20	15	15	15
Supply, Total	12,510	14,362	13,740	14,120	13,691
Feed & residual	5,591	5,938	5,300	5,200	5,200
Ethanol fuel	2,119	3,026	3,700	4,100	4,100
Food, seed & other industrial	1,371	1,337	1,300	1,300	1,300
Total domestic use	9,081	10,302	10,300	10,600	10,600
Exports	2,125	2,436	1,700	1,850	1,850
Use, Total	11,207	12,737	12,000	12,450	12,450
Ending Stocks	1,304	1,624	1,740	1,670	1,241
Stocks/use (%)	11.6	12.8	14.5	13.4	10.0
Season-avg. farm price ($/bu)	$3.04	$4.20	$4.10	$3.60	$3.60

Source: USDA and UBS estimates

Lower corn acreage this spring could reduce corn ending stocks/use next year to levels well below the 15 year average of 14.4%.

Weather will ultimately determine the size of the US corn crop in 2009. Weather during the growing season can have a significant impact on yields, which can easily add or subtract 10 bu/acre to the USDA's trend yield estimate of 157/bu/acre for 2009. Thus, as illustrated below, assuming 86 million acres of corn are planted, if yields are 10 bu/acre below trend, ending stocks/use as of August 2010 would decline to 7.1%, (assuming no demand destruction from higher prices) a nearly 50% decline from the current USDA forecast of 13.4%, or conversely, if yields are 10 bu/acre above trend, ending stocks to use could return to almost 20%, well above the 15 year average of 14.4%.

Table 8: US ending corn stocks will depend largely on corn plantings and yield

(ending stocks to use for 09/10 as a function of planted acreage and yield)

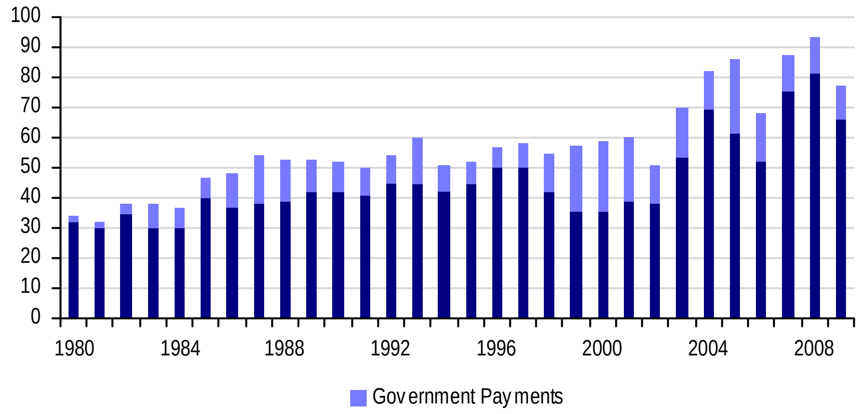
	Yield per planted acre (bu/ac)				
Planted acres (mm)	147	152	157	162	167
82	2.8	5.8	8.8	11.8	14.8
83	3.9	6.9	10.0	13.0	16.1
84	4.9	8.0	11.1	14.2	17.3
85	6.0	9.2	12.3	15.4	18.5
86	7.1	10.3	13.4	16.6	19.8
87	8.2	11.4	14.6	17.8	21.0
88	9.3	12.5	15.7	19.0	22.2

Source: USDA and UBS estimates

No Recession Yet in the Corn Belt

The USDA is projecting a sharp decline in farm income in 2009 – down $16.1 billion or 17% from the 2008 record. The decline is driven primarily by significantly lower projected income for the livestock, poultry, and dairy sectors due to weak demand and continued high feed prices. Prospects for grain and oilseed producers remain robust – the USDA projects only an 11.2% decline in crop receipts to $162 billion the second highest level ever.

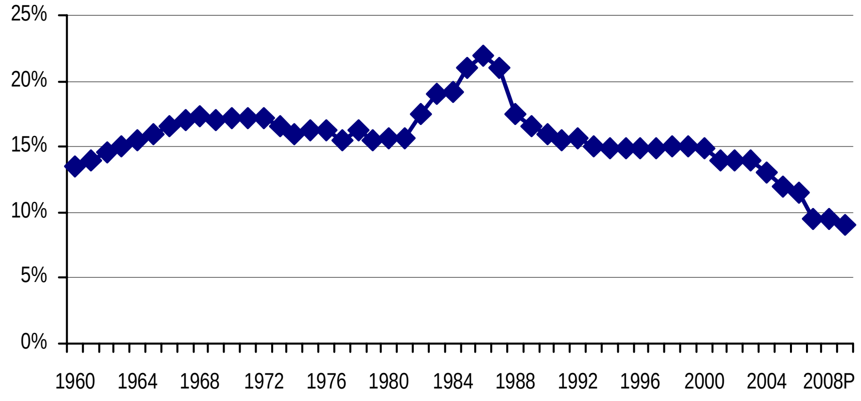
Chart 32: Net cash farm income projected to decline from 2008 record
($ billions)



Source: USDA

In contrast to the consumer and corporate sector farm balance sheets are robust. Total farm debt declined to 9.1% of assets in 2008. The farm debt-to-asset ratio has declined steadily from 15% in 1998. The improvement was due to the strong appreciation in land values which did decline in the fourth quarter of 2008, but nonetheless credit availability is not a problem for the overall farm sector.

Chart 33: Finances Are Healthy Down On The Farm
(debt as a % of assets)



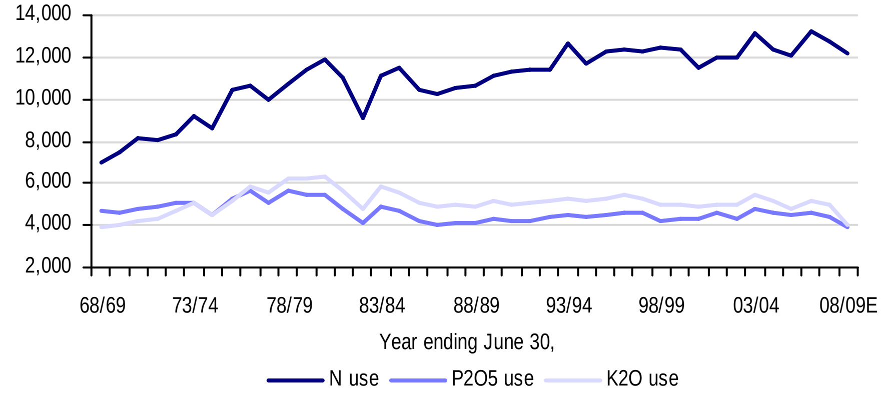
Source: USDA

Fertilizer Consumption to Decline a 2nd Straight Year

We expect US fertilizer consumption to decline 8.9% for the crop year ending June 30 2009, following a 3.1% decline in 2008. This year's decline is the largest since 1986 when fertilizer consumption declined 9.4%. Prior to 1996 major swings in US fertilizer consumption were driven by changes in government set-aside programs. Post the 1996 Farm Bill which eliminated acreage set-asides changes in fertilizer consumption have been driven by changes in the mix of crops planted.

Chart 34: US fertilizer consumption is expected to fall in 2009

(k st)



Source: USDA and UBS estimates

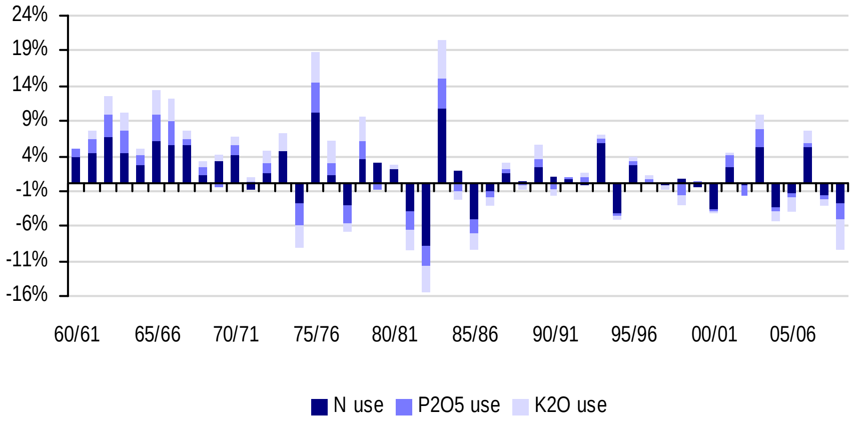
The 2008/09 decline in US fertilizer consumption is driven primarily by reduced application rates for P and K not a shift from corn to less-fertilizer-intensive soy.

The 2009 decline in US fertilizer consumption is driven by lower application rates not lower corn acreage. We project N, P, and K use to be down 5%, 11%, and 20%, respectively using the USDA corn acreage forecast of 86.0 million. The decline is greatest for potash as prices have not declined as much from their mid-2008 peaks as have nitrogen and phosphate and are well above year-ago levels. Current Midwest potash prices of $725/st are 70% above year ago levels whereas ammonia and DAP prices are 20% and 55% lower

Above-average soil moisture in the Midwest and forecasts for wet weather in early April could result in a repeat of the 2008 planting season when cold wet weather delayed fieldwork and reduced the window for fertilizer application.

Chart 35: 2008/09 decline in US fertilizer use is largest decline in 23 years

(change y/y)



Source: USDA and UBS estimates

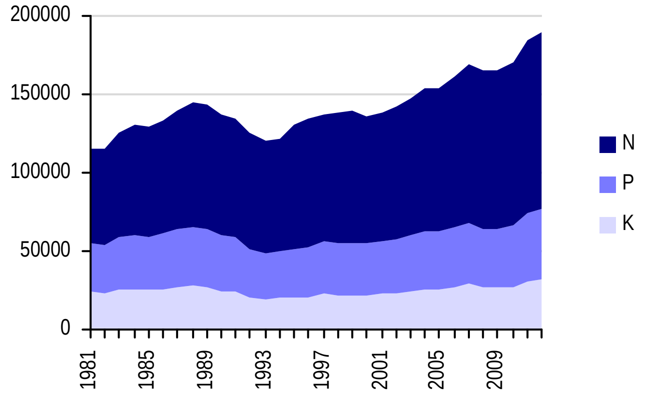
Reduced potash application rates drive 50% of the projected 2008/09 decline in fertilizer consumption.

Global fertilizer consumption is also likely to decline in 2008/09. The International Fertilizer Association was projecting a 2.2% decline in global consumption as of November 2008. This projection appears increasingly optimistic given the continued weak demand since then. The IFA expects a rebound in 2009/10 but this also appears increasingly optimistic. The current economic downturn is likely to have a greater disproportionate effect on grain demand in Asia, the largest fertilizer consuming region, as stagnant incomes lead to slower growth in meat consumption which has a downward multiplier effect on grain demand.

Potash has the weakest near-term demand outlook of the three nutrients. The IFA projection of a 2.2% decline in global fertilizer consumption in 2008/09 assumes an 8.2% decline in potash compared to a 4.7% decline for phosphate and a 0.5% increase for nitrogen.

Chart 36: Global fertilizer demand also to dip in 08/09

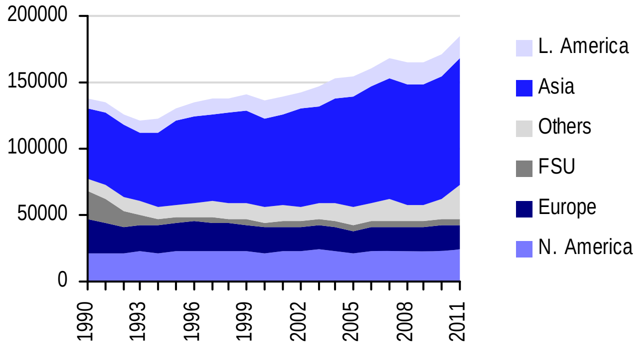
(000s mt of N, P_2O_5, and K_2O)



Source: IFA and UBS estimates

Chart 37: Asia is the biggest fertilizer consuming region

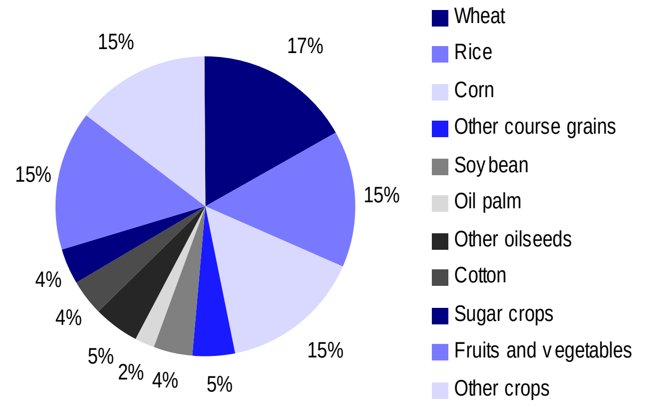
(000s mt of N, P_2O_5, and K_2O)



Source: IFA and UBS estimates

Sharply lower wheat prices due to record production in 2008 is one of the key drivers behind lower fertilizer demand in 2008/09. While corn is the key fertilizer-consuming crop in the US wheat is the leading fertilizer consuming crop on a global basis.

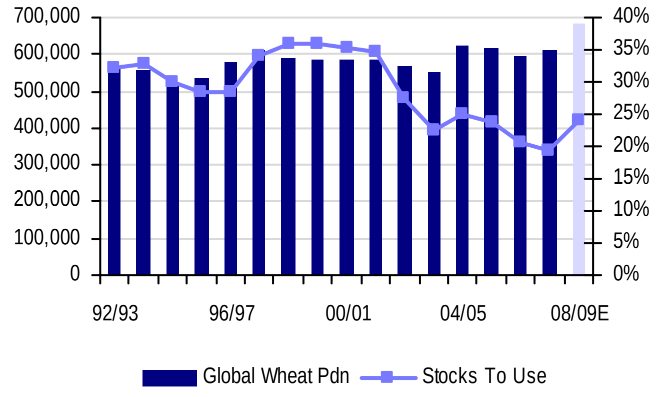
Chart 38: Wheat is the leading fertilizer consuming crop globally



Source: IFA

Chart 39: Wheat stocks increasing with record production

(mil mt) (stock-to-use)



Source: USDA

In the US the annual shift back and forth between corn and soy has historically been the greatest influence on fertilizer consumption patterns as a typical acre of corn receives 7.5 times as much fertilizer as an acre of soy. Corn accounts for 45% of US fertilizer consumption versus 11% for wheat, and 6% for soybeans. The corn/soy mix has the greatest impact on nitrogen consumption as soybeans utilize almost no nitrogen given their ability to absorb nitrogen from the atmosphere. Corn consumes 50 times as much N as beans but only 4.5 times as much P, and 3 times as much K.

Table 9: Corn is the most fertilizer-intensive crop in the US

YE 30-Jun	Acreage (000s)	Acres Receiving (%) N	Acres Receiving (%) P2O5	Acres Receiving (%) K2O	App. Rates (lbs/acre) N	App. Rates (lbs/acre) P2O5	App. Rates (lbs/acre) K2O	Nutrient Use (000s tons) N	Nutrient Use (000s tons) P2O5	Nutrient Use (000s tons) K2O	Total
Corn											
2006	78300	96	78	64	137	59	84	5,149	1,802	2,105	9,055
2007	93500	96	78	64	138	60	85	6,171	2,188	2,543	10,902
2008E	86000	96	77	63	132	55	80	5,449	1,821	2,167	9,437
2009E	86000	96	77	60	135	50	70	5,573	1,656	1,806	9,034
Wheat											
2006	57300	85	65	19	65	32	28	1,583	596	152	2,331
2007	60500	85	65	20	67	33	28	1,723	649	166	2,538
2008E	63100	85	64	20	68	32	28	1,824	646	180	2,649
2009E	58000	85	63	19	65	31	29	1,602	566	161	2,330
Soybeans											
2006	75500	18	23	25	16	46	80	109	399	755	1,263
2007	64700	18	24	30	16	49	84	90	377	810	1,277
2008E	75700	18	23	25	17	48	80	116	418	757	1,291
2009E	77000	18	23	25	16	43	70	108	377	674	1,159

Source: USDA and UBS estimates

Contrary to conventional wisdom, lower P and K application rates do not appear to be resulting in lower corn yields. Corn yields came in just below trend in 2008 despite lower application rates. We believe that P and K application rates in 2008 were reduced not by choice but by adverse weather conditions in the spring. With the cold wet weather conditions growers in many cases had to prioritize planting ahead of fertilizer applications. While significant amounts of nitrogen can be applied post-planting by side-dressing ammonia it is relatively difficult to apply significant amounts of P and K at or after planting.

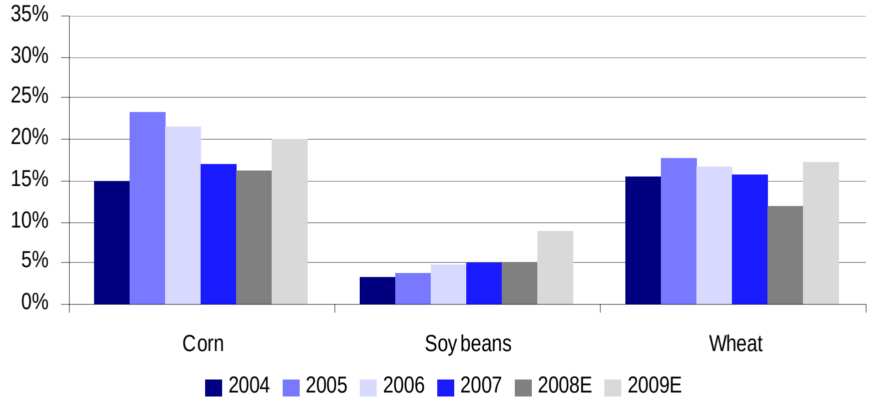
US growers are likely to keep “mining” P and K from the soil until they start to see a negative yield impact.

We expect a sharp reduction of P&K application rates in 2008/09 as shrinking crop margins force corn growers to cut back on their largest variable cost – fertilizer. Potash application rates will be cut the most because of high prices relative to last year. Nitrogen will be cut the least because residual nutrient carryover in the soil from one year to the next is minimal. What isn’t absorbed by the plant is leached away in the groundwater or volatized into the atmosphere.

High fertilizer costs represent an earnings headwind for growers and are likely to lead to a second year of reduced domestic fertilizer consumption. While absolute fertilizer costs are down slightly for corn growers ($124/acre vs. $140/acre in spring 2008), they are up sharply relative to harvest-month corn prices which averaged $6/bu last March/April vs. $4/bu today. Fertilizer costs are actually up for soybeans on an absolute basis because of higher priced potash. Beans use little nitrogen but receive significant applications of potash which is currently priced at $725/st in the Corn Belt or $300 more than last year.

Chart 40: Fertilizer costs relative to grain prices expected to increase in 2009

(Fertilizer cost as % of revenue)



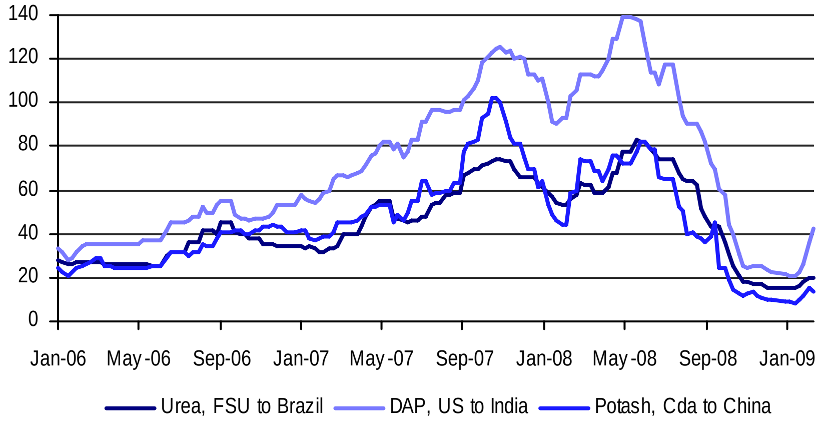
Source: FactSet, Doane, Green Markets, USDA, and UBS estimates

Falling Freight Rates Positive for Fertilizer Producers

Falling freight rates are positive for fertilizer producers as they reduce the landed price of fertilizer for importing countries. Transportation can represent a significant portion of the landed cost of fertilizer. For example freight rates on the Vancouver-Shanghai market have ranged from $11/mt to $100/mt over the last year versus a $575/mt fob 2008 contract price. For Canadian potash exporters lower freight rates can also directly improve producer netbacks as approximately 60% of Canpotex's sales are on a landed basis.

Chart 41: Freight rates have plunged

($/ mt)



Source: FMB

Nitrogen Update and Outlook

We expect North American producers of nitrogen fertilizer to remain solidly profitable overall in 2009 despite weaker global demand and lower industry utilization rates. This is due mainly to favorable natural gas market dynamics and sharply reduced import pressures. However, average cash margins for ammonia, urea, and nitrogen solutions (UAN) will fall well below their all-time record levels of last summer, a consequence of the abrupt severe contraction in fertilizer demand tied to the global economic slowdown and concurrent credit market instability. Demand remains sluggish into early March, as farmers appear under little pressure to commit to purchases as they weigh planting options and sluggish global economies reduce industrial requirements.

Global Nitrogen demand appears set to decline in 2009 for the second year in a row. We estimate that global nitrogen consumption will decline by (1%-2%) in 2009, on top of a (1%-2%) decline in demand for full year 2008. On a fertilizer year (July 2008-June 2009) basis, the decline in global nitrogen demand could total (5%). We estimate sharper declines in domestic nitrogen use of (5%-7%) in the fertilizer year ended June 30 2009, due to weaker demand from all key end markets. Ammonia demand appears especially hard-hit, with demand from industrial markets (nylon, acrylic, polyurethane), DAP feedstock and direct application (pre-plant corn) all registering notable declines.

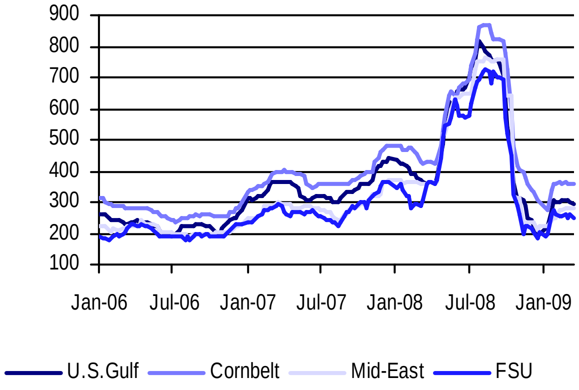
The development of nitrogen utilization corn by seed producers poses a longer-term threat to growth in demand. While these products are 3-5 years from commercial launch Monsanto and DuPont indicate that field trials indicate growers could achieve the same yields with up to a 10% reduction in nitrogen application.

We do expect a very busy spring for fertilizer once growers move to the fields, in part due to the need for significant "catch-up" purchases by customers deferred from the fall. Beyond the spring, we expect crop prices and fertilizer demand both will strengthen gradually through year-end. We expect global grain supplies to tighten due to weaker farm economics and for economic recovery to spur stronger emerging market grain demand. Key risks to expected market improvement during 2010 include the pace of global economic recovery and the direction of natural gas costs, particularly in Europe and North America.

North American Nitrogen producers recorded record profitability during 2008. Record high crop prices for corn, soybeans, and wheat last spring amid limited fertilizer supplies spurred strong demand that drove farm-belt selling prices for ammonia and urea to all-time highs of $1,200 per short ton and $850 per short ton, respectively. This compares to selling prices during the mid-1990s peak of no more than $285/st for ammonia and $240/st for urea. Cash margins for integrated producers soared to an outsized $800-$1,200 per nutrient ton for much of the spring and summer.

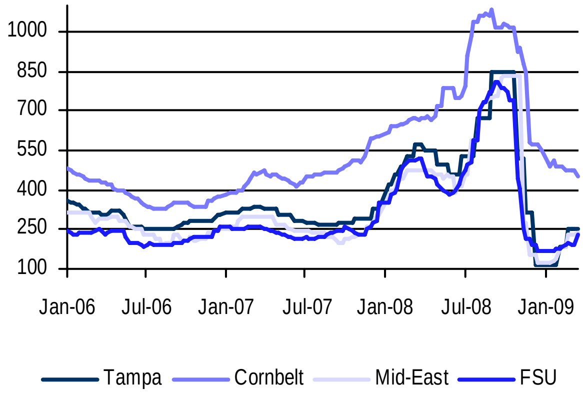
However, this unprecedented level of fertilizer selling prices also spurred significant demand destruction globally. This was exacerbated by limited credit availability and rising economic uncertainty, particularly in key emerging markets. In the US, we estimate farmers cut fall fertilizer applications by (30%-50%) due to a late harvest, weaker crop prices and early signs of falling fertilizer prices.

Chart 42: Urea prices have stabilized ($/st)



Source: Green Markets

Chart 43: Ammonia prices have rebounded from sharp plunge at year-end ($/st)



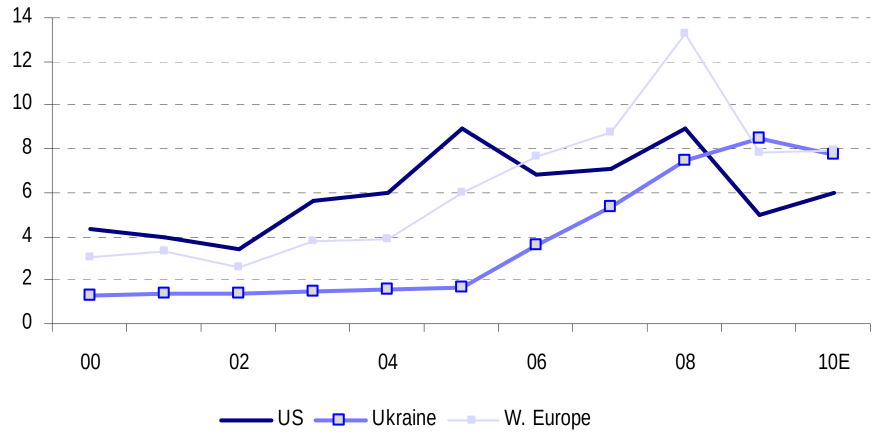
Source: Green Markets

Ammonia demand was especially hard-hit: a late US harvest, uncertain corn outlook and steep DAP production cutbacks together slashed fall agricultural demand, while the global economic slowdown led industrial demand to dive. This led benchmark US Gulf ammonia prices to plunge by 80% or more during the fourth quarter of 2008 to end the year at levels well below cash-breakeven. Benchmark selling prices at Tampa, for example, declined from its all-time record of $931 per metric ton in September to $125/mt on December 31, a price that requires natural gas costs for major importers of $1.50/mmBTU or below. Similarly, benchmark urea selling prices declined from approximately $875 per short ton on August 1 to $260 per short ton by year-end.

Sharp Production Cutbacks Stabilized Markets These price levels implied cash margins below-cash break-even for many producers, and quickly led a round of curtailments and shutdowns during the fourth quarter of 2008, estimated by Yara to affect 20% or more of North American and European capacity. The uncertain demand outlook also discouraged global trade even from lower-cost production regions to the traditionally import hungry US Gulf, with gross exports of ammonia, urea, and nitrogen solutions down by 40%-60% for the seven month of the fertilizer year ended January 31, 2009.

These production cuts were sufficient to stabilize markets ahead of normal peak spring planting demand. Tampa Ammonia recently sold for $275 per metric ton in mid-March, while urea values rebounded to $305 per short ton. We forecast flat-to-higher selling prices through spring planting followed by a summer lull.

Chart 44: EU and FSU natural gas costs are higher than US levels



Source: FactSet, Fertecon, and UBS estimates

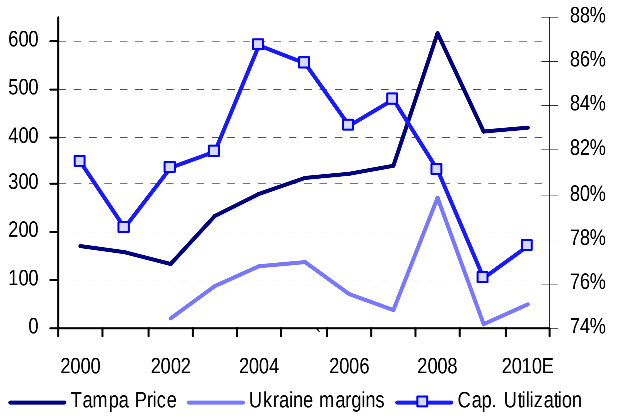
Natural Gas Cost Curve. Looking ahead, we believe levels of international natural gas costs will help determine the level of product pricing and cash margins available for North American nitrogen producers. The relative position of the domestic industry has improved markedly during the past few years due to both (1) lower local natural gas costs and (2) rising gas costs Western Europe and the Former Soviet Union.

We estimate that gas costs to export-oriented nitrogen producers in Ukraine and other Gazprom-supplied customers could average $7.00 per mmBTU in 2009, down from an average of $7.50 per mmBTU in 2008. We estimate that this gas price would translate into plant gate cash costs (FOB Black Sea) for ammonia of approximately $290-$300 per metric ton and delivered costs to a Tampa DAP producer of $375-$400/mt. We also believe this cash cost level approximates that for many Western European nitrogen producers sourcing natural gas under formula-based contracts tied either to crude oil or its main derivatives.

By comparison, we estimate the average plant gate cash cost of production for a US Gulf producer sourcing natural gas at an average cost of $4.50/mmBTU would approximate $190-$200/mt.

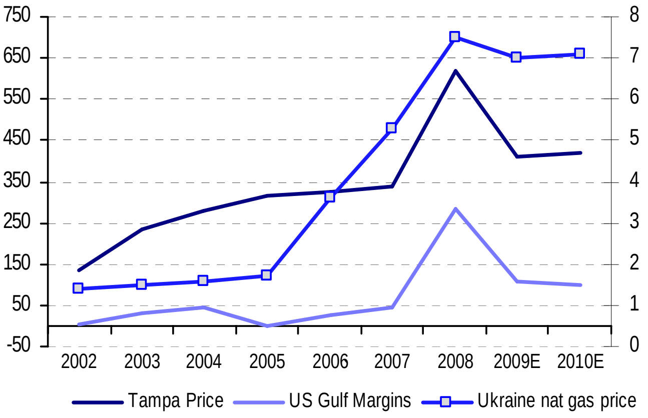
We believe the production economics for a higher-cost exporter influence selling prices and cash margins in the balanced-to-long market conditions we expect in 2009-2010. As selling prices significantly below these levels, we expect that global nitrogen production and trade will decline, tending to tighten global supply/demand balances and supporting higher prices. Should prices rise too far above the industry cost curve, we expect overproduction by profit-motivated producers will weaken fundamental balances and cause market prices to decline

Chart 45: Ammonia prices move with utilization rates and Ukraine gas costs (ammonia price and Ukrainian margins, $/mt)



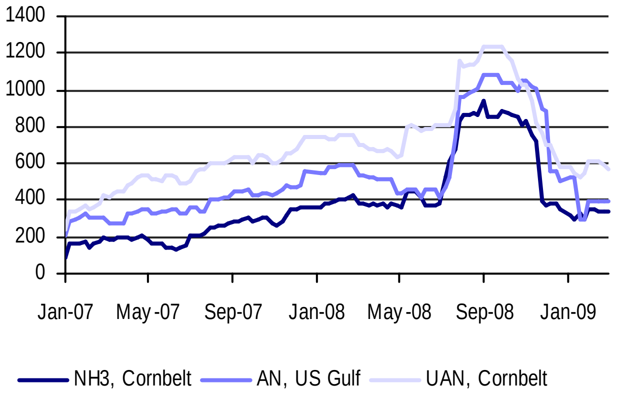
Source: Fertecon and UBS estimates.

Chart 46: Ammonia prices have followed Ukrainian gas prices (ammonia price and US Gulf margins, $/mt)



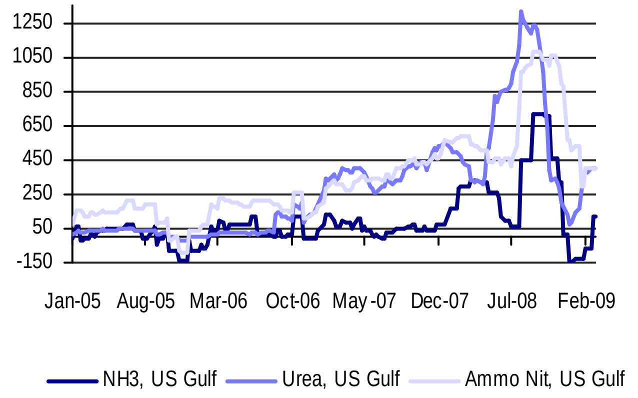
Source: Fertecon and UBS estimates.

Chart 47: Corn Belt urea margins are down from autumn peaks, though they remain at historically attractive levels. ($/st)



Source: Green Markets

Chart 48: Ammonia and urea margins have bounced off winter lows. ($/st of contained Nitrogen)



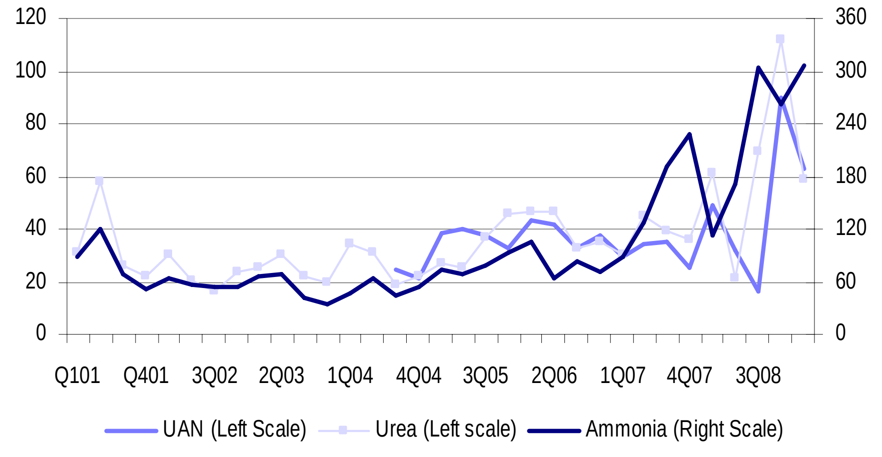
Source: Green Markets and UBS estimates. Note Ammonia is 82.2% Nitrogen (N) by weight, urea is 46% N by weight and ammonium nitrate is 34% Nitrogen by weight.

Wider Coastal-Inland Spread: One domestic market trend in recent years has been a notable widening of the regional spreads between product selling prices at major ports (e.g., New Orleans) versus Midwestern dealer prices for the same product (“coastal–inland spread”). Spreads have widened significantly in the past 1-2 years to levels far beyond total transportation costs (e.g., $60-$90/ st for ammonia, $25-$40/st for urea). For the three year period 2006-2008 the coastal inland spread for ammonia averaged $152 per short ton, compared with an average of $61/st for the three-year period 2003-2005.

The main drivers behind this trend include industry consolidation, the replacement of service-oriented co-operative marketers with profit-motivated owners, and limited new investment in storage and distribution infrastructure.

We also believe the recent high market volatility discourages opportunistic imports, given greater risks of a spot price decline while their product is en route. This leads offshore producers and traders to favor more timely shipments to local markets.

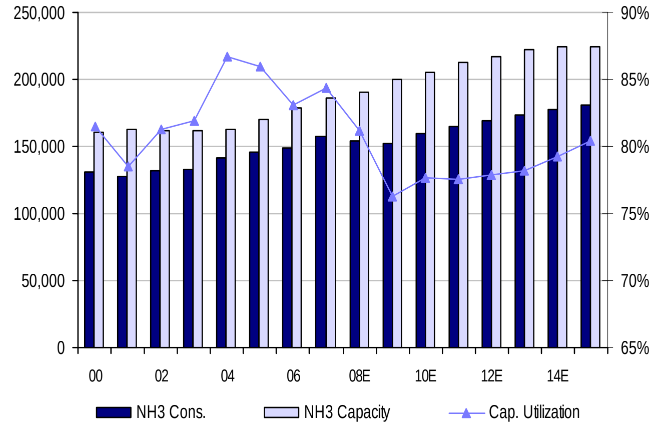
Chart 49: Nitrogen: Spread Between Selling Prices in US Gulf and Corn Belt
$ per short ton



Source: Green Markets and UBS estimates.

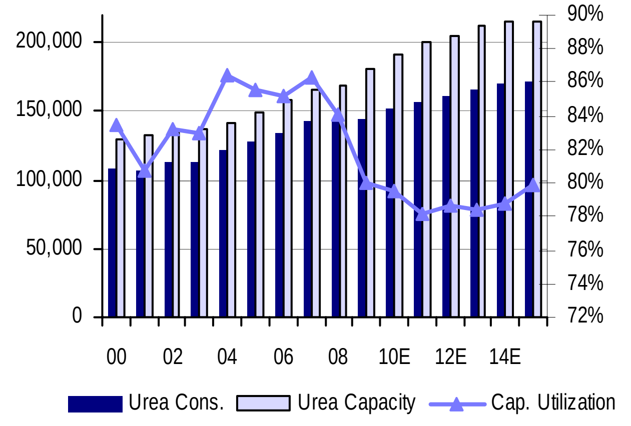
We expect a gradual recovery in industry operating rates beginning in the second half of 2009. Beyond the spring planting season, we expect global nitrogen utilization rates to begin to improve, due to a combination of trendline demand growth, limited new capacity additions (especially outside China), and selected capacity closures in high-cost gas regions. We expect export tariffs in China to continue at similar or higher levels, limiting the growth in export supply. We believe these factors will allow global utilization rates to bottom in 2009 at approximately 76% of nameplate and rise to 78% in 2010 and towards 80% by 2012-2013.

Chart 50: Ammonia operating rates to bottom in 2009
(k mt)



Source: Fertecon and UBS estimates

Chart 51: New Urea Capacity dominated by China
(k mt)

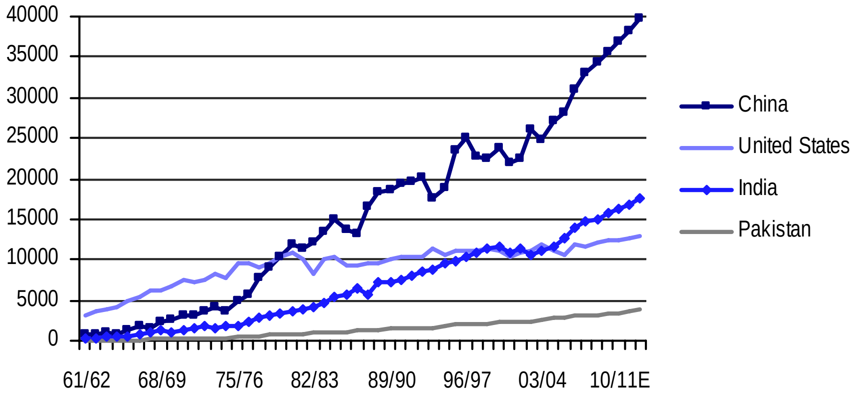


Source: Fertecon and UBS estimates

China remains the largest source of both new nitrogen capacity as well as long-term demand growth. In the Tables that follow, we present our forecast for scheduled ammonia capacity additions for the period 2009-2015. Fertecon estimates that China will account for approximately 63% of the global increase in ammonia capacity between 2006-2010E, along with a similar share of consumption growth. Our estimates, which include delays and cancellations of certain non-Chinese projects due to declining energy costs (e.g., coal gasification-based capacity in Louisiana) credit constraints, or construction delays, indicate global capacity growth could be slower and that the Chinese share of capacity additions could be higher.

No Export Surge Expected. We recognize that new Chinese capacity creates the risk that rising nitrogen (mainly urea) exports from China could weaken global fundamentals and depress selling prices and margins. However, we expect little change in overall urea exports from China. The national government has prioritized increased support for their agricultural sector. This includes measures to increase the supply and affordability of fertilizer, including subsidies for growers and placing prohibitive tariffs on fertilizer exports for most of the year. We believe China will maintain these programs for the foreseeable future to spur domestic consumption and thereby limit the risks to industry fundamentals from any export surge.

Chart 52: China driving global demand for nitrogen fertilizer
(k mt)



Source: IFA (November 2008 forecast) and UBS estimates.

Table 10: Ammonia: Global capacity increases planned for 2009-2015

(k mt product)

Country	Company	Location	2009	2010	2011	2012	2013	2014	2015
Abu Dhabi	Fertil	Ruwais					660		
Algeria	Al Bahia Fertilizer	Arzew				1089			
	Algeria-Oman Fert. Co. (EDEOLA)	Arzew				660			
	EDEOLA - phase 2	Arzew					660		
	Sorfet Algeria	Arzew			1320				
China PR	CDT/Jingle Coking	Jingle		400					
	China Bluechem Jincheng Chems.	Jincheng			600				
	China Guodian Corp.	Chifeng		300					
	China XLX Fert. Ltd	Xingiang	230						
	CNPC Tarim Petrochem	Tarim		450					
	Fugu Coal-Elect.-Chem Energy	Fugu			300				
	Guangxi Hechi Chem.	Hechi	300						
	Guizhou Nenghua	Kaiyang	500						
	Guizhou Tianfu	Machangping		300					
	Hebei Jizhou Yinhai Fert. Co.	N/A			300				
	Hegang Xinhua Coal Chem. Co.	Hegang City			600				
	Heilongjiang Fert.	Yichun	80						
	Hubei Sanning-Jincheng Coal Co.	Zhijiang	300						
	Jianfeng Chem.	Fuling	450						
	Jiangsu Lingguo Chem.	Yixing	300						
	Jiangxi Ammonia CO.	Xinyu		300					
	Jincheng Coal Chem.	Jincheng		300					
	Jinxin Chem. Ind.	Hulunbuir			500				
	Koyo Ecological Agrotech Group Ltd	Dazhou	400						
	Linyi Shidanli Fert. Co.	Linyi		110					
	Nailun Group Inc	Erdos			300				
	Ningxia Jiemei Fengyou Chem. Co.	Yinchuan	440						
	Shaanxi Xinghua Chem.	Xingping			300				
	Shandong Huayang	Tai'an		300					
	Shenhua Group	N/A	363						
	Sichuan Chem. Ind.	Qingbaijiang	460						
	Sichuan Meifeng Chem. Co.	Deyang City			180				
	Tianze Jincheng	Zezhou		460					
	Tongzi Coal Chem.	Tongzi		300					
	Various	Various					400	400	400
	Xingzheng Chem. Ind.	Xingzheng	180						
	Xinjiang Hongji Coking	Dahuangshan	120						
	Yuanan Guangyuan Chem. Co.	Yuanan	100						
	Yunnan Yuntianhua Co.	Shuifui	500						
	Yunnan Yuntianhua Co.	Shuifui				500			
	Yuxian Chem. Ind.	Yuxian	360						
Iran	Ghadir Ammonia & Urea Co. (Pars 2)	Bandar Assaluyeh	677						
	Golestan	Aq Qola					677		
	Lordegan	Lordegan						677	
	NPC/Shiraz Petrochem.	Marvdasht			677				
	Pars 3	B. Assaluyeh					677		
	Zanjan	Ejroud, Zanjan					677		
Nigeria	N/A	N/A					365		
Oman	SIUCI – Bahwan	Sohar	660						
Pakistan	Engro Chemicals	Dharki		660					
	Fatima Fertilizer (Reliance/Chinese jv)	Sadiqabad	800						
Qatar	QAFCO V - Stage 1	Umm Said			759				
	QAFCO V - Stage 2	Umm Said			759				
Russia	Acron	Dorogobuzh	400						
	JSC Ammony	Mendeleyesvsk				717			
S. Arabia	Ma'aden	Raz al Zawr			1089				
Trinidad	Clico AUM	Point Lisas	638						
Turkmenistan	JSC Mary Azot	Mary	200						
US	Eastman Chemical	Beaumont			231				
Venezuela	Pequiven	Puerto Moron			594				
Vietnam	Ninh Binh Ferts. & Chems. Vinachem	Ninh Binh			330				
	Petrovietnam	Ca Mau				445			
Total additions to capacity			8458	3880	8839	3411	4116	1077	400
Additions as % of World Capacity			4.4%	2.0%	4.4%	1.6%	1.9%	0.5%	0.2%

Source: Fertecon and UBS estimates.

Table 11: Urea: Export capacity increases planned for 2009-2015

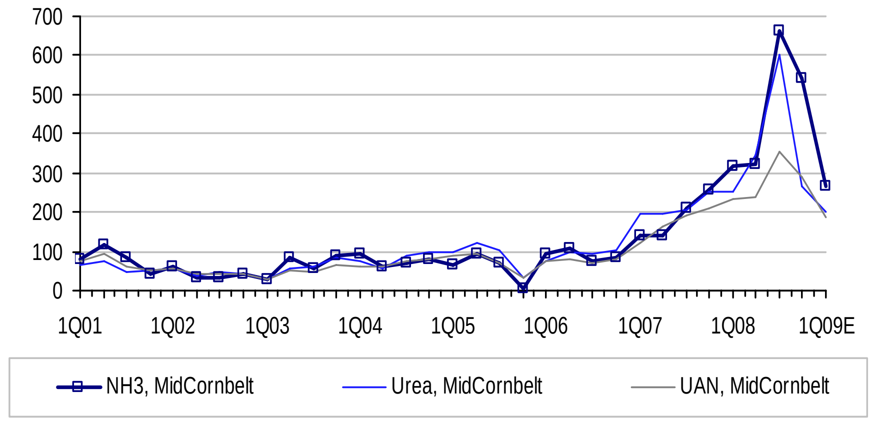
(k mt N)

Country	Company	Location	2009	2010	2011	2012	2013	2014	2015
Russia	Acron		350						
	Cherepovets				495				
	JSC Ammony					718			
Abu Dhabi	Fertil		240						
	Fertil II						1155		
Iran	NPC-Pars II		1073						
	Pars 3						1073		
Oman	SIUCI -Bahwan Group		1155						
Ukraine	Stirol			150					
Malaysia	Petronas			198					
Pakistan	Engro			1155					
Algeria	Sorfert (January)								
Iran	NPC-Shiraz				1155				
Qatar	Qafco V				1073				
Venezuela	Pequiven				1155				
Abu Dhabi	Fertil II				726				
Algeria	EDEOLA 1						1155		
	EDEOLA 2						1155		
Nigeria	N.A.						635		
Total Capacity Increases			2818	1503	4604	718	5173	0	0

Source: Fertecon.

Chart 53: Nitrogen: Benchmark Cash Margins for Corn Belt Nitrogen Products

($/st)



Source: Green Markets and UBS estimates.

Despite softer demand and declining industry utilization rates we expect benchmark US Gulf ammonia and urea margins to remain above historical averages. Assuming our global natural gas forecast is correct, we expect benchmark US Gulf ammonia selling prices to average approximately $375-$400 per metric ton with cash margins in the $175-$200 per mt range. We estimate US Gulf urea could average $250/st or above in 2009 with benchmark cash margins of $100-$110 per short ton

Should average 2009 natural gas costs in eastern and western Europe rise above our $7.00/mmBTU forecast, domestic selling prices and cash margins for nitrogen could rise above our forecast. Higher than forecast domestic natural gas costs would lead to lower margins.

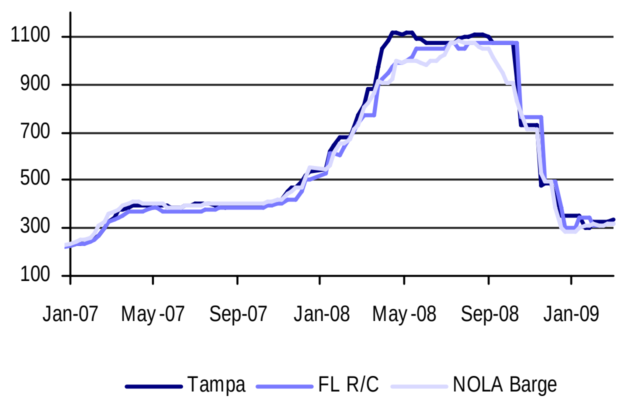
Phosphate Update and Outlook

DAP prices have stabilized after their dramatic fall-off in the fourth quarter of 2008 in response to fading demand and plunging raw material costs. DAP export prices fell 72% from $1187/mt fob Tampa on Oct 1, 2008 to a trough of $335/mt in early January. Prices have since rebounded to $365 on stronger Indian demand. The Q4 decline was driven by weak fall demand both in South America ahead of their primary planting season as well as in the US. With the clarity of hindsight it appears that South American buyers built up inventories earlier in the year as prices were rising and as the real remained strong against the dollar.

DAP margins have not fallen as far as prices at least in absolute terms for integrated US producers because of the sharp decline in prices for purchased sulphur and ammonia. Margins declined $610/mt or $242/mt less than the price decline for US producers back-integrated into phosphate rock. Ammonia prices peaked at $931/mt cfr Tampa in September-October and declined to $125/mt in December-January and have since rebounded to $318/mt. Sulphur prices fell even more dramatically. USG sulphur prices peaked at $617/lt in August-September and are currently $0 (no this is not a typo!)

Chart 54: DAP Prices have stabilized after Q4 2008 collapse

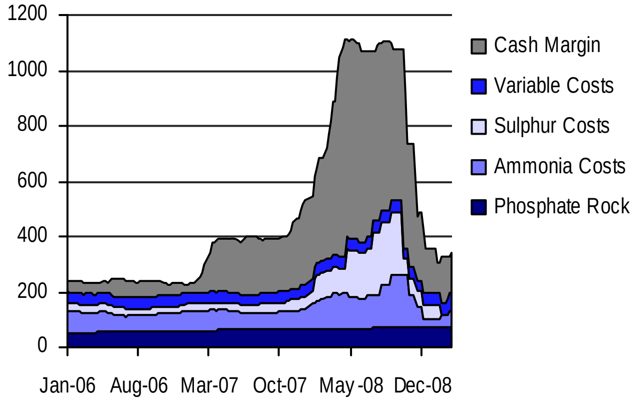
($/st)



Source: Green Markets

Chart 55: Dap margins have been compressed

($/st fob Tampa)



Source: Green Markets and UBS estimates

Rising phosphate rock prices were one of the key drivers of soaring DAP prices and margins for producers back integrated into phosphate rock in the first nine months of 2008. Morocco's decision to raise phosphate rock prices at the start of 2008 to be more in line with its equivalent P_2O_5 value in phosphate fertilizer significantly raised the price ceiling for phosphate fertilizer. Approximately 30% of global phosphate fertilizer capacity is based on purchased rock, with most of this capacity in India as well as large buyers in the US such as Mississippi Phosphates and even Mosaic which buys up to 1 million mt of rock per year to supplement its own supplies. With strong demand for phosphate fertilizer and constrained supplies due to reduced exports out of China from April-December because of punitive export tariffs the cost of production for the high-cost non-integrated producers essentially set the market clearing price.

OCP of Morocco, the world's largest supplier of merchant phosphate rock raised the price of rock to $200/mt on January 1, 2008 from its long-term level of $40/mt. As DAP prices spiked in 2007 rock became underpriced on a P_2O_5 equivalent basis. OCP increased rock prices to $400/mt in Q2 2008, and to $500/mt in Q3 but then cut rock prices in Q4 to reflect plunging DAP prices.

The differential between merchant rock prices and the cost of production for US producers back integrated into rock essentially sets DAP/MAP margins for the integrated producers. Integrated US producers buy most of their ammonia and sulphur requirements in the merchant market and any advantage or disadvantage versus international competitors tends to be short-lived. Table 12 outlines costs of production for an integrated US DAP producer.

OCP has reduced rock prices to $150/mt in Q1 2009 in order to maintain sales volumes to key customers. With current DAP prices of $370/mt fob Tampa and ammonia and sulphur priced at $275/mt and $0/mt (not a typo!) non-integrated producers break-even rock cost is $165/mt.

Table 12: Export DAP margins have plummeted for US integrated producers

March 25, 2009	Material Usage	Market Price	Cost in DAP	Trans. Cost	Cash Cost	% of Total Costs
Raw Materials						
Phosphate Rock	1.684	42.50	71.57	0.46	72.03	41.2%
Ammonia	0.223	249.43	55.62	0.90	56.52	32.3%
Sulphur	0.367	0.00	0.00	1.35	1.35	0.8%
Raw Material Costs			$127.19	$2.71	$129.90	74.3%
Conversion Costs						
DAP					14.65	8.4%
Phosphoric Acid					15.43	8.8%
Sulphuric Acid					(4.30)	(2.5%)
Conversion Costs					$25.78	14.8%
Total Cash Costs					$155.69	89.1%
DAP Spot Price					$317.50	
Cash Margins as of	3/25/2009				$161.81	
Cash Margins as of	6/30/2008				$691.35	

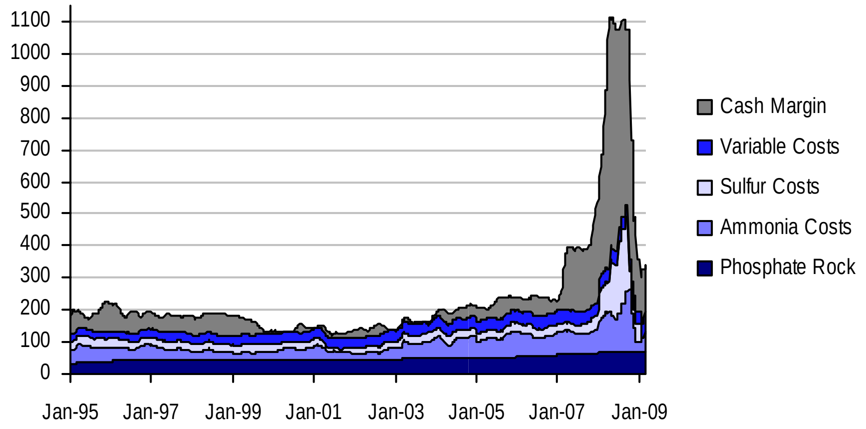
Source: Green Markets and UBS estimates

While DAP margins of $160/st are well below their 2008 peaks of near $700/st they compare favourably to long term averages.

DAP margins for integrated US producers have averaged $94/st over the last 10 years, and $45, excluding the 2008 peak. Margins averaged $54 in the 1994-98 cycle.

Chart 56: DAP margins are still above long-term averages

($/st)

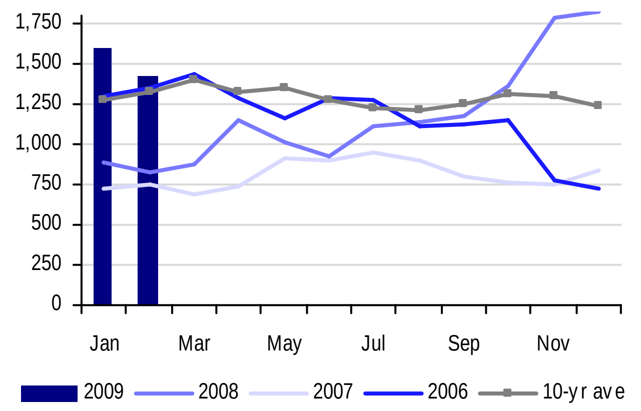


Source: Green Markets and UBS estimates

Phosphate producers have taken extensive production shutdowns in order to match supply to demand. In the US market leader Mosaic announced a 1 million ton production shut in at the beginning of October and subsequently announced a further 1 million mt shutdown in early January. While January US MAP/DAP production was at record low levels producer inventories remained above their 10-year averages because of weak demand. With India's re-entry into the market in February and the upcoming spring season producers are restarting shuttered capacity. US DAP exports to India were up over 50% in February 2009 as a result of this renewed buying interest although total US exports of DAP/MAP were still down 9% due to weakness in other Asian markets.

Chart 57: US MAP/DAP inventories are above 10 year average

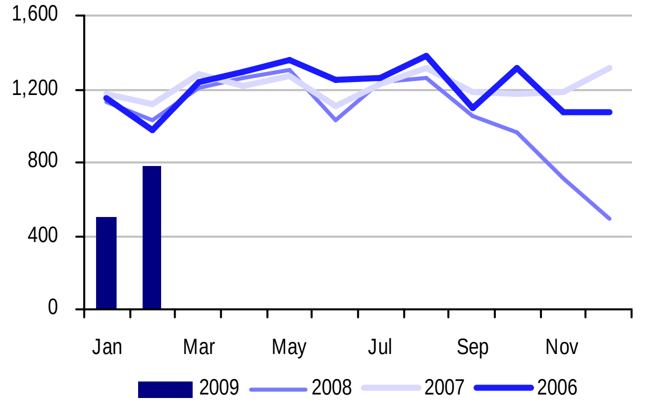
(k mt)



Source: TFI

Chart 58: US MAP/DAP production at lowest levels on record

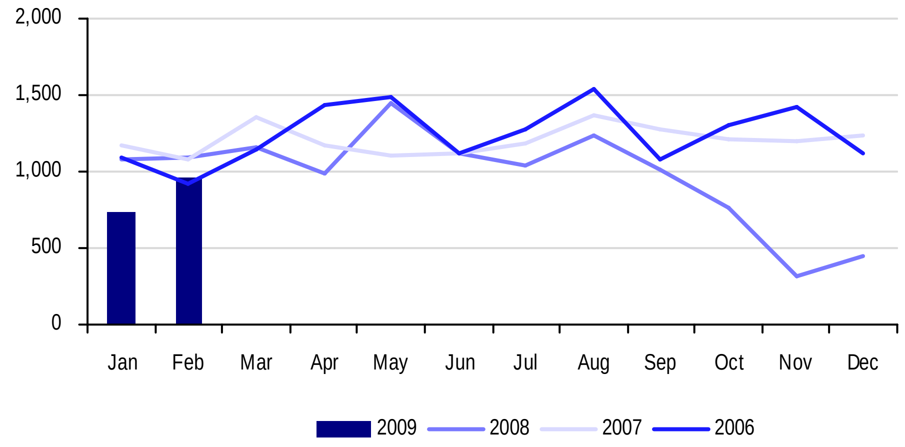
(k mt)



Source: TFI

Chart 59: US MAP/DAP shipments are below prior years

(k mt)



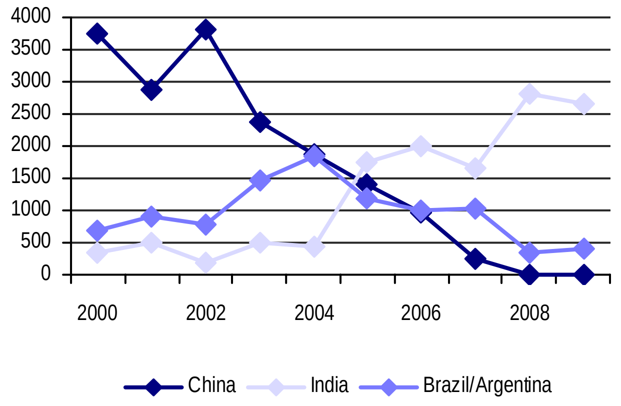
Source: TFI

Total US DAP/MAP producers shipments are down 32% fertilizer year-to-date (July 2008-Feb 2009). The domestic market is down 43% while exports are down only 17%. The decline in shipments is greater than the projected 20% consumption decline indicating that dealer inventories are being drawn down.

US DAP/MAP exports have declined dramatically since the late 1990's. China used to absorb as much US MAP/DAP as the domestic market but with the development of its extensive phosphate rock resources China has swung from a net importer to a net exporter of phosphate fertilizer. India has become the most important export market for US producers. India does not have any indigenous sources of rock although it does have domestic phosphate capacity based on imports of phosphoric acid and rock. South America also remains a key export market for US DAP/MAP producers.

Chart 60: US DAP/MAP exports to China have fallen…

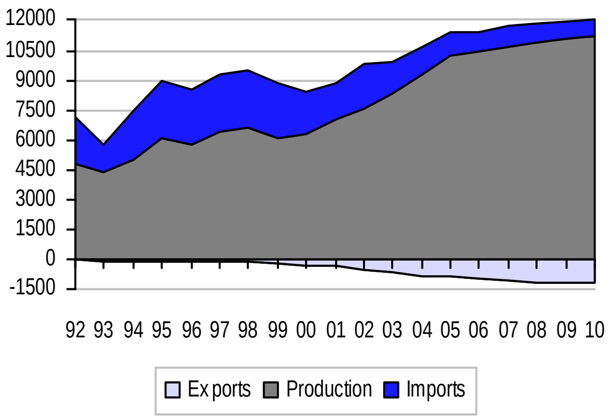
(k mt)



Source: Fertecon and UBS estimates

Chart 61:…as China has become a net exporter

(k mt)



Source: Fertecon and UBS estimates

Table 13: India has become the dominant importer of US DAP/MAP

(k mt)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009E
China	5,139	4,639	3754	2869	3810	2388	1884	1403	964	265	0	0
India	827	2,327	353	497	201	515	428	1760	2012	1644	2801	2650
Brazil/Argentina	400	513	676	905	781	1478	1835	1185	988	1023	350	415
Others	5,118	4,068	4213	4519	3649	4377	4523	4521	3609	3095	2287	1075
Total exports	11,484	11,547	8996	8790	8441	8759	8670	8869	7573	6026	5438	4140
Domestic shipments	5,916	6,205	6643	5229	6511	6407	6765	5711	5971	7200	6045	6160
Total US DAP/MAP Shipments	17,400	17,752	15639	14019	14953	15166	15435	14580	13544	13226	11483	10300
Total Capacity	17,573	17,573	18823	18823	18823	18823	18823	18730	16918	16013	16400	16400
Capacity Util. (%)	99%	101%	83.1%	74.5%	79.4%	80.6%	82.0%	77.8%	80.1%	82.6%	70.0%	62.8%

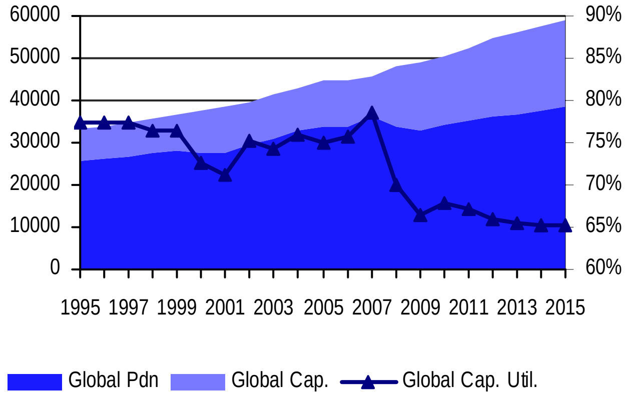
Source: Fertecon and UBS estimates

We look for a second year of lower global phosphate consumption in 2009. Global phosphoric acid production declined by almost 7% in calendar 2008 which likely overstates the decline in consumption as key markets like South America drew down inventories. We expect an additional 3% decline in 2009 to 66.5% from 69.9% in 2008. As demand recovers in 2010 we expect capacity utilization to rebound to 68%. However beyond 2010 we expect operating rates to dip once again as new project start-ups more than offset demand growth. Our roster of new capacity is listed in table 14 below.

We do not see a return to the $400-500/mt rock prices that briefly existed in mid-2008. We expect rock utilization rates to decline to 80% in 2009 from 85% in 2008 due to sharply lower demand. As with phosphoric acid we expect a demand rebound to lift phosphate rock operating rates in 2010 and for supply increases to outstrip demand thereafter leading to a gradual erosion in operating rates. Significant capacity increases are projected in North Africa, China, Saudi Arabia, and Peru in the 2011-2015 time period.

Chart 62: Global phosphoric acid cap. utilization to decrease

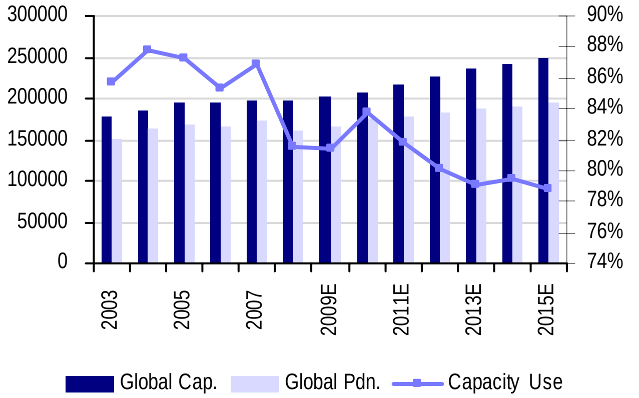
(k mt) (capacity utilization)



Source: Fertecon

Chart 63: As is phosphate rock capacity utilization

(k mt) (capacity utilization)



Source: Fertecon

Table 14: Phosphoric Acid Capacity Changes

(k mt P_2O_5)

Country	Company	Location	2009	2010	2011	2012	2013	2014	2015
Spain	Fertiberia, S.L.	Huelva					-510		
Algeria	Ferphos/Engro	Jijel				150	345		
	Ferphos/other	Jijel						150	345
Egypt	El Nasr Mining Co joint-venture	Edfu					500		
Morocco	OCP - Fauji Joint venture	Jorf Lasfar	125		55				
	Bunge-OCP	Jorf Lasfar	325				55		
	Indonesia/OCP	Jorf Lasfar			250	250			
	Libya/OCP						250	250	
	OCP JV						250	250	500
Tunisia	GCT	Sfax	-100	-100					
	GCT	M'dhilla				198			
	TIFERT				180	180			
Jordan	JPMC	Aqaba				167	60		
	JPMC/Japan	Shidiya		165	165				
	JPMC/IFFCO	Shidiya		250	250				
Saudi Arabia	Ma'aden	Ras Az Zawr			250	1000	195	480	480
China PR			150	800	300		400	200	
India	RCFL-RSMML j/v	Rajasthan	30	90					
	Hindalco (Andiyta Birla Group)	Dahej	50	50					
	Sterlite	Vedanta	50	45					
Vietnam	Government	Haiphong	80			160			
United States	PCS Phosphates			184					
Brazil	Copebras S/A	Catalao, Goias			180				
	Fosfertil	Uberaba		130	130			130	130
Venezuela	Pequiven	Puerto Nutrinas				200			
Mexico	Grupo Fertinal SA de CV	Lazaro Cardenas	264						
Net capacity additions			974	1614	1760	2305	1545	1460	1455

Source: Fertecon and UBS estimates

Table 15:Phosphate Rock Capacity Changes

(k mtpa product)

Country	2009	2010	2011	2012	2013	2014	2015
Finland	50	100	350	300	200	50	0
FSU	596	-38	-550	-180	-42	38	79
Algeria	0	0	0	200	1700	300	1500
Egypt	350	400	500	0	0	0	0
Morocco	0	1000	2700	1500	3000	3000	2200
Senegal	0	0	0	0	0	0	200
Tunisia	-50	150	600	300	200	200	300
Other Africa	0	0	0	250	950	0	0
Canada	0	0	200	250	550	-550	0
USA	0	0	100	0	0	0	0
Brazil	0	200	400	200	200	0	0
Mexico	500	500	0	0	0	0	0
Peru	0	300	2000	2000	0	0	0
Venezuela	0	0	0	70	300	250	400
Iraq	0	0	500	500	0	0	0
Saudi Arabia	0	0	1500	3000	500	0	500
Syria	500	1000	0	0	0	0	0
India	0	300	0	0	0	0	0
China	2290	1150	1427	1181	709	689	2304
Vietnam	112	170	83	263	154	83	0
Net Change	4348	5232	9810	9834	8421	4060	7483

Source: Fertecon and UBS estimates

Rock prices in the $150-200/mt range appear sufficient to bring on significant new capacity. As a result we believe DAP margins for integrated US producers are likely capped at the $170-$200 /mt range with downward pressure as the new rock capacity is sold into the market post start-up. We estimate US rock costs at $35-50/mt and as mentioned earlier we believe the differential between merchant rock prices and the cost of production for US rock producers times the 1.7 tons of rock per ton of DAP essentially sets DAP/MAP margins for US DAP producers back integrated into rock.

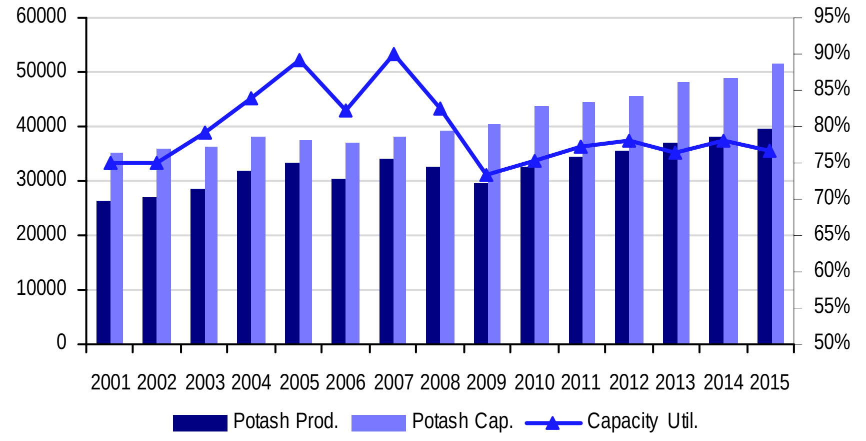
Potash Update and Outlook

While potash arguably has the best longer-term fundamental outlook of the three primary fertilizer nutrients it currently has the weakest near-term outlook. Producers have managed to keep prices at relatively high levels both domestically and abroad through production cutbacks. In contrast to nitrogen and phosphate potash prices remain well above year-ago levels but this high price has led to near-term demand destruction as reflected by the significant declines in domestic and global potash consumption projected for the 2008/09 fertilizer year. Potash producers have historically been willing to trade off volume for price and are doing so again in 2009.

We expect weak demand to lead to a significant reduction in nameplate operating rates in 2009. We estimate that nameplate operating rates will decline to 74% in 2009 from 86% in 2007, and 80% in 2008. Operating rates in 2008 were reduced by strikes at three Potash Corp. mines and curtailments late in the year by Canadian and FSU producers in the face of sharp declines in demand. Production curtailments announced by producers from August 2008 through May 2009 total 15% of annual world production.

Chart 64: Global potash nameplate capacity utilization to fall again in 2009

(k mt) (capacity utilization)



Source: Fertecon and UBS estimates

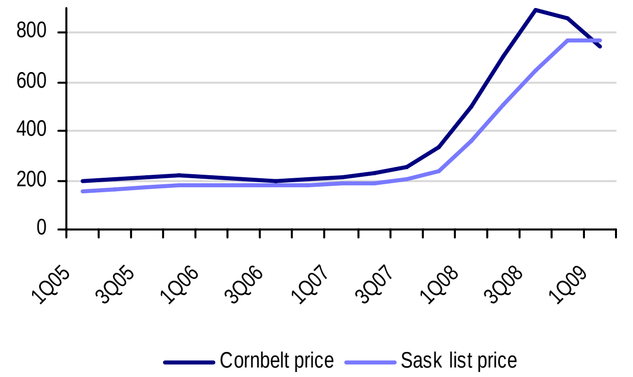
Operating rates are likely to rebound in 2010

Domestic and offshore spot potash prices are currently 20-25% below their second-half 2009 peak levels. We would note that relatively little business was done at these peak prices. Current Corn Belt potash prices are $715/st down $200 or 22% versus their summer 2008 peak. Producers have not yet reduced their posted prices of $767/st fob Saskatchewan which is equal to a $800/st Midwest price when freight is added. We expect producers to wait and see if demand firms enough as planting approaches to support this price.

FSU producers recently posted a $750/mt cfr price in Brazil a significant reduction from the $1000/mt peak second half price. While it is claimed that some sales have been made at this level we regard it more as an attempt at price discovery. Producers would like to set a price floor that is above the $585/mt fob Vancouver 2008 contract price with China in order to keep that contract from rolling over at a lower price. With Vancouver-Brazil freight rates currently at $20/mt the BPC posting equals a $730/mt fob Vancouver posting.

Chart 65: Domestic KCl prices still well above year-ago levels

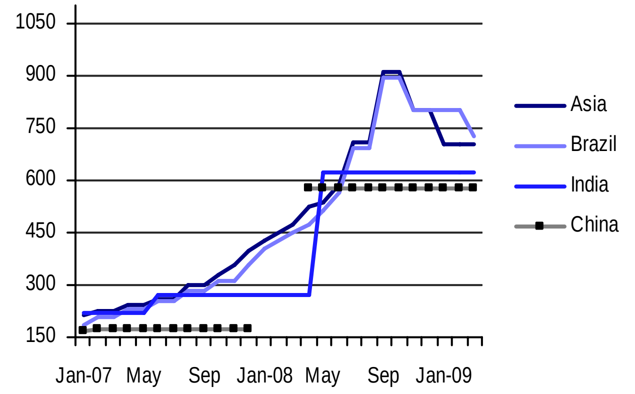
(US$/st)



Source: Green Markets

Chart 66: International pricing down from 2H 2008 peaks

(US$/mt)

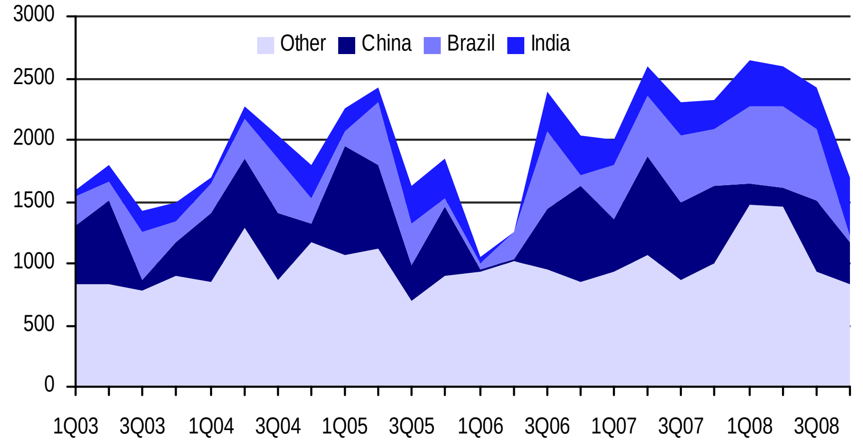


Source: Green Markets, FMB, and UBS estimates

Our 2009 projections of $700/mt fob Vancouver realization are still achievable but increasingly unlikely. We assume that the Chinese contract rolls over flat at $585 fob Vancouver, India rolls over at $650/mt cfr, Brazilian prices range from $750-800/mt cfr, and Asian spot markets average $800/cfr. China typically buys fob Vancouver while most other major markets buy on a landed basis with exporters assuming freight price risk. Based on current freight rates, the 2008 sales mix for Canpotex, the export sales association of Saskatchewan potash producers our 2009 price assumptions would translate into an average fob Vancouver price of $700/mt. A $700/mt fob Vancouver price translates into a $650/st Midwest price which is at the low end of current spot prices.

Canpotex sales allocations are based on producers share of rated production capacity of their Saskatchewan mines. Current allocations are Potash Corp. – 54%, Mosaic – 37.5%, and Agrium – 8.5%.

Chart 67: Canpotex shipments
(k mt of KCl)



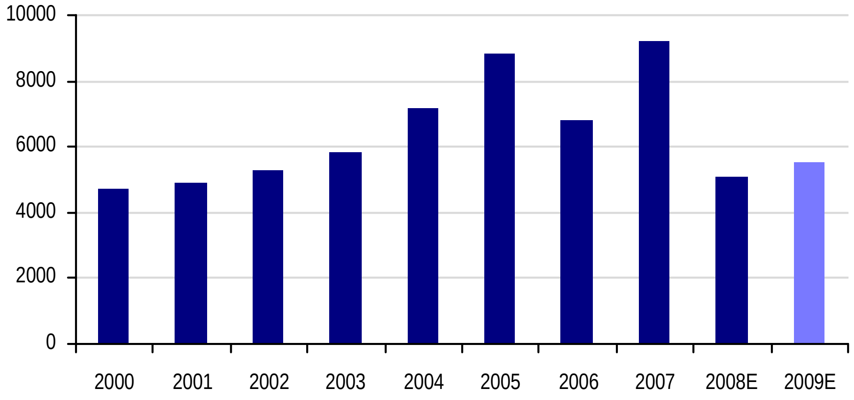
Source: Canpotex and UBS estimates

China remains a major importer of potash unlike nitrogen and phosphate where it has swung from net importer to net exporter. China buys on a one-year fixed price contract basis in contrast to the US and Brazilian markets which are based on producer postings which can change frequently during the year. Historically China would settle its contract terms late in the preceeding year but this pattern has lately become the exception. In 2006 in the face of a softening potash market driven by lower sales into Brazil China did not finalize its contract until the end of July. China was able to settle that contract at an increase of only $40/mt to $175/mt. In 2007 China settled in February albeit at a significant $400/mt increase reflecting the strengthening market.

China has historically settled first with the FSU producers and then with Canpotex. We believe this is due to the greater importance of the Chinese market to FSU producers and, prior to 2006, the less disciplined stance of FSU producers. Roughly 60% of China's potash imports are sourced from the former Soviet Union (FSU – see Charts below), whereas Canada accounts for approximately one quarter of China's potash imports.

Chart 68: China's potash imports fall due to high prices

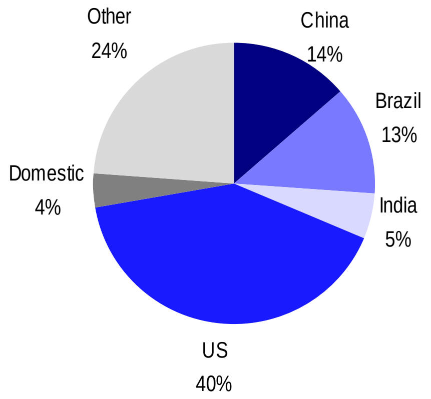
(k mt of KCl)



Potash sales to China represent the lowest net realizations (selling price, net of freight) for the Canadian producers, and thus we believe Canpotex has not aggressively competed with the FSU for shipments to China.

Chart 69: The US is the key market for Canadian Potash

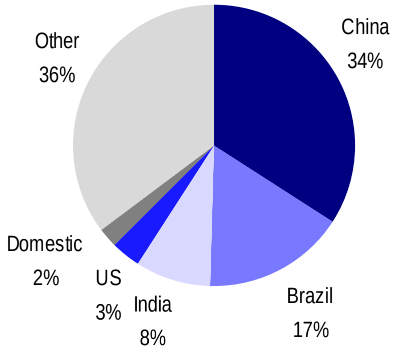
(2007 actual)



Source: Fertecon

Chart 70: China is the key market for FSU-sourced potash

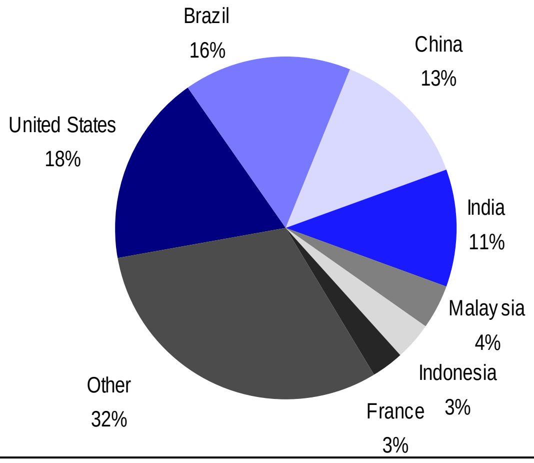
(2007 actual)



Source: Fertecon

Chart 71: China is still a major importer of potash unlike N+P where it is a net exporter

(% k mt imports of K_2O by country)



Source: Fertecon

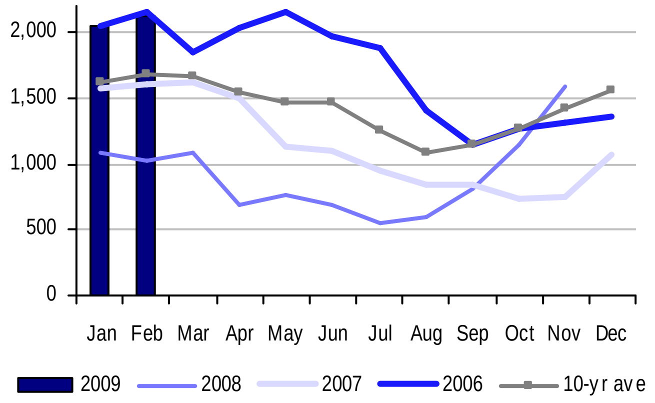
Reflecting the demand destruction from still elevated prices potash inventories continue to soar despite extensive production cutbacks. North American potash producer inventories rose 94% year-over-year in February as a 75% cut in production was more than offset by a 80% decline in producer disappearance. Inventories are back to the high levels of February 2006. China was out of the market for seven months in 2006 and all indications point to the likelihood of an extended absence in 2009. North American potash producer shipments to all markets are down 36% in the year-to-date crop year (July 1, 2008 – February 2009).

North American producers have dramatically reduced production in order to manage potash inventories and prices in the face of weak demand. Operating rates were 20% in February.

Potash Corp. has announced further production cutbacks of 1.5 million mt in response to continued weak demand. This brings announced 2009 POT shutdowns to 3.5 million mt or 26% of capacity.

Chart 72: Producer potash inventories back to 2006 highs

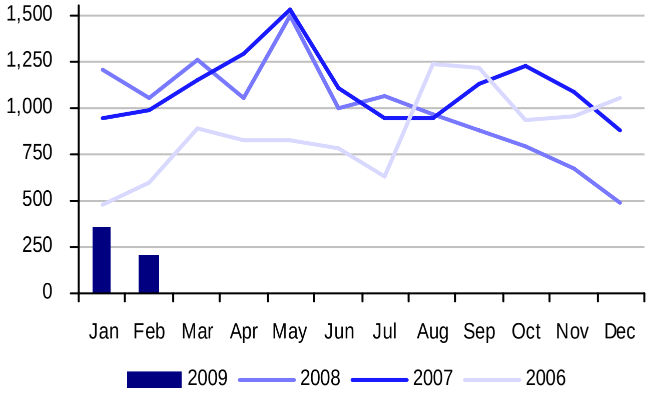
(k mt)



Source: TFI

Chart 73: February NA producer shipments lowest on record

(k mt)



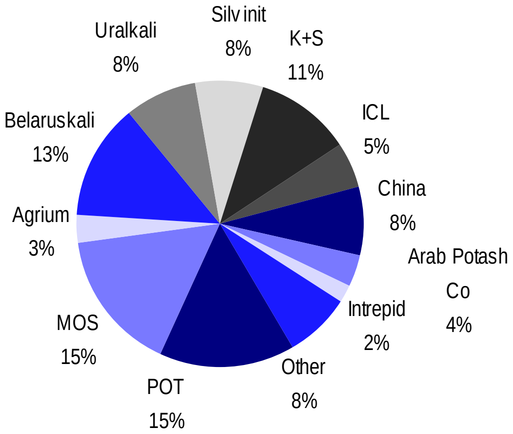
Source: TFI

Continued production discipline on the part of FSU producers is key to supporting current potash price levels.

A concentrated producer base is one of the key factors differentiating potash from other nutrients. Canadian and FSU producers account for 63% of global capacity. Another 25% of global capacity follows the pricing lead set by the market leaders. We include K+S, ICL, and Arab Potash in this latter category. The concentration of production capacity is backed up by a disciplined approach to marketing. Two export sales associations – Canpotex, the export sales association of Saskatchewan producers, and BPC, the export sales association for Belaruskali and Uralkali, consistently act as price leaders in key markets like Brazil, China, and India. We would note that all producers set prices independently in the US market. Historically Canpotex has been the most disciplined of the export sales associations but in the last year we have seen BPC emerge as the price leader, being the first for example to raise prices to $1,000/mt in the Asian spot and Brazil markets in 2H 2008 and most recently attempting to set a new price floor at $750/mt in Brazil.

Chart 74: Canada and FSU account for 63% of global capacity…

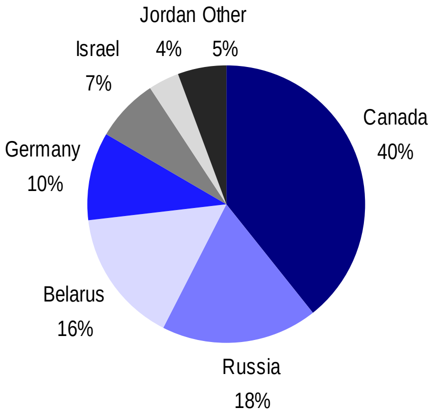
(% of world K_20 capacity)



Source: Fertecon

Chart 75: …and 74% of global trade

(% of world K_20 exports)

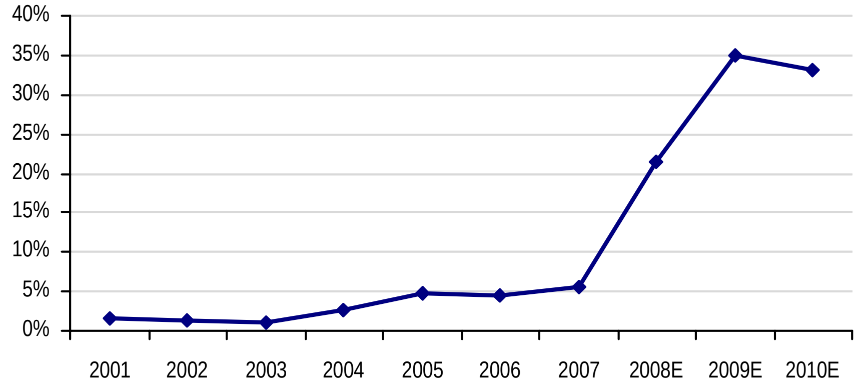


Source: Fertecon

In addition to the relative scarcity of potash deposits relative to other nutrients the significant cost and long-lead time to build a new greenfield mine have also represented significant barriers for new entrants to the potash industry. Potash prices have only recently reached reinvestment levels, following a 20-year period of global overcapacity. As shown below, we estimate the pre-tax ROI for a new greenfield potash mine did not rise above 10% until 2008 (based on producer cost estimates of $1400/mt for new underground greenfield capacity excluding the cost of reserves).

Chart 76: Greenfield potash capacity returns have only recently become attractive

(ROI on replacement cost excluding reserves)



Source: UBS estimates

The run-up in potash prices in 2008 has created significant interest in building new capacity both amongst existing producers and from new entrants. The recent economic downturn and tightness in credit markets has led to many of these projects being delayed however. We would also note that most of the capacity expansions between now and 2015 will be by existing producers. We estimate that existing Canadian and FSU producers will account for 46% and 22%, respectively of the likely increase in potash capacity between 2008 and 2015.

We believe that the market has overlooked the current and planned start-up of new potash capacity in China. While some of these expansions are potassium sulphate not potassium chloride we believe that domestically produced SoP will displace imports of KCl.

Significant additional potash capacity is being planned for China although China will remain a large net importer of potash. We estimate that 15% of global capacity expansions or 3.3 million tons of potash on a KCl equivalent basis will be in China. The Chinese capacity is all based on solar evaporation of brine deposits, not traditional underground room and pillar mining. Our roster of potential projects is outlined below:

Table 16: There are less potash projects expected for 2009-2015 than previously planned

(k mt of KCl)

			2009	2010	2011	2012	2013	2014	2015
Belarus	PA Belaruskaliy	Soligorsk 1			-1800				
	PA Belaruskaliy	Soligorsk 5	230	460	1610				
	JSC Uralkaliy	Berezniki 4		1450					
Uzbekistan	Uzkkimesanoat	Tyubegatanskoye				200			
Chile	SQM	Salar de Atacama		63	63	125			
Israel	Israel Chemical	Sdom	125	125					
Jordan	Arab Potash Co.	Safi	167	333			250	250	
China PR	Gelmud Qingfeng Potash	Gelmud, Qinghai		150	150	200	200		
	Luobupo Potassium Salt	Lop Nor, Bayinggolin	200	400	600				
	Qinghai Salt Lake	Lake Chaerhan				250	250		
Canada	Agrium Inc.	Vanscoy, SK				175	175		
	Mosaic	Esterhazy, SK					300	300	300
	Mosaic	Belle Plaine, SK		58	58	180	180		
	Mosaic	Colonsay, SK		225					
	PotashCorp	Allan, SK				250	250		
	PotashCorp	Cory, SK		600	600	250	250		
	PotashCorp	Lanigan, SK	750				500		
	PotashCorp	Patience Lake, SK	180	180					
	PotashCorp	Rocanville, SK					250	250	
	PotashCorp	New Brunswick (old)				-800			
	PotashCorp	New Brunswick (new)			400	600	1000		
	BHP	Saskatchewan							2000
US	Intrepid Mining LLC	Carlsbad, NM	0		83	83			
	Mosaic	Hersey, MI		-78	-78				
	Compass Minerals		23	45					
Argentina	Potasio Rio Colorado	Rio Colorado				0		667	1333
Total net capacity increases			1674	4010	1685	1513	3605	1467	3633

Source: Fertecon and UBS estimates

UBS Investment Research

Mosaic Co

Poised to Rebound

■ We initiate coverage of Mosaic with a Buy rating and $63 price target

Mosaic is one of the world's largest and strongest fertilizer producers, with a deep reserve base, low-cost operations, and large market shares in oligopolistic DAP (14% global share) and potash (15%) markets. Mosaic reported F2008 revenues and gross profit of $9.6 billion and $3.2 billion, respectively.

■ Fertilizer markets beginning to stabilize

The traditional resilience of global grain demand has been severely tested in recent months by global economic instability and severe credit constraints. Demand from key emerging economies and biofuels appears set to resume, while grain supplies remain modest. Limited new global potash and DAP capacity additions mean that fundamental balances remain firm. We expect a gradual tightening in global grain fundamentals over the next year to boost farmer profitability and fertilizer demand.

■ Well-positioned for recovery

Mosaic's role of global swing producer in P&K positions it with ample room to increase output during periods of recovery. Its competitive advantages in ore quality and logistics allow it to remain profitable during downturns. A net-debt-free balance sheet means its has been able to fund aggressive growth and efficiency programs while absorbing unusually large fluctuations in demand

■ Reasonable valuation reflects no strategic premium

Our $63 price objective is based on a mid-cycle EV/EBITDA multiple of 6.8x our F2009 EBITDA estimate. This is also supported by a sum-of-parts valuation analysis, utilizing multiples of 6x and 7.5x EBITDA for their phosphate and potash businesses. Our price target represents a fraction of its 52-week high of $163. Primary risks include either a prolonged decline in global fertilizer demand or earlier-than-expected new phosphate or potash capacity additions.

Highlights (US$m)	05/07	05/08	05/09E	05/10E	05/11E
Revenues	5,773.70	9,812.60	12,731.48	11,806.42	12,452.50
EBIT (UBS)	616.30	2,817.00	3,345.82	3,177.38	3,715.06
Net Income (UBS)	351.00	1,976.51	2,410.06	2,168.50	2,488.64
EPS (UBS, US$)	0.80	4.43	5.40	4.85	5.55
Net DPS (UBS, US$)	0.00	0.00	0.10	0.20	0.20

Profitability & Valuation	5-yr hist av.	05/08	05/09E	05/10E	05/11E
EBIT margin %	-	28.7	26.3	26.9	29.8
ROIC (EBIT) %	-	47.9	50.8	42.0	44.9
EV/EBITDA (core) x	-	10.5	5.0	4.9	3.8
PE (UBS) x	-	17.3	8.4	9.4	8.2
Net dividend yield %	-	0.0	0.2	0.4	0.4

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$45.47 on 25 Mar 2009 19:40 EDT

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Global Equity Research

Americas

Chemicals, Commodity

12-month rating	Buy *Prior: Not Rated*
12m price target	US$63.00 -
Price	US$45.47

RIC: MOS.N BBG: MOS US

Trading data	
52-wk range	US$161.08-22.31
Market cap.	US$20.2bn
Shares o/s	444m (COM)
Free float	36%
Avg. daily volume ('000)	1,583
Avg. daily value (US$m)	62.8

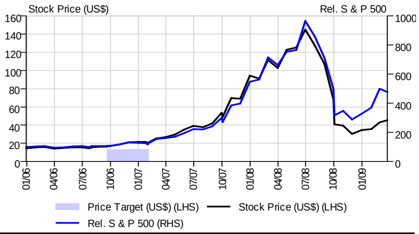
Balance sheet data 05/09E	
Shareholders' equity	US$9.11bn
P/BV (UBS)	2.2x
Net Cash (debt)	US$1.93bn

Forecast returns	
Forecast price appreciation	+38.6%
Forecast dividend yield	0.4%
Forecast stock return	+39.0%
Market return assumption	6.0%
Forecast excess return	+33.0%

EPS (UBS, US$)

	05/09E			05/08
	From	To	Cons.	Actual
Q1	-	2.65	2.65	0.69
Q2	-	1.12	1.12	0.82
Q3E	-	0.30	0.24	1.05
Q4E	-	1.33	1.15	1.88
05/09E	-	5.40	*5.64*	
05/10E	-	4.85	*6.95*	

Performance (US$)



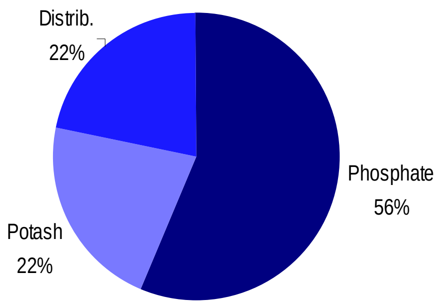
Source: UBS

Mosaic

Company Overview

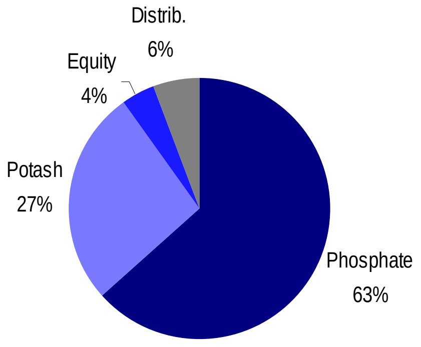
Mosaic is among the world's largest and strongest fertilizer producers, with F2008 (May) revenues of $9.8 billion and gross profit of $3.2 billion. It is the world's largest phosphate producer, representing ~15% of global production capacity, and is the second largest potash producer behind Potash Corp., representing approximately 14% of global capacity Mosaic was formed by the October 22, 2004 merger of IMC Global and Cargill Crop Nutrition (64% of stock still owned by Cargill). Mosaic also has a significant international fertilizer distribution business with assets in 11 countries. F2008 free cash flow totaled $2.2 billion due to surging prices and margins for both phosphate and potash. We believe priorities for the use of cash will be investments to improve overall operating efficiency and to complete announced potash capacity expansions. Management is spending much of F2009 coping with reduced agricultural demand tied to global economic and credit market difficulties.

Chart 77: Mosaic: F2008 Revenue Breakdown by Segment
percent of $9.8 billion total



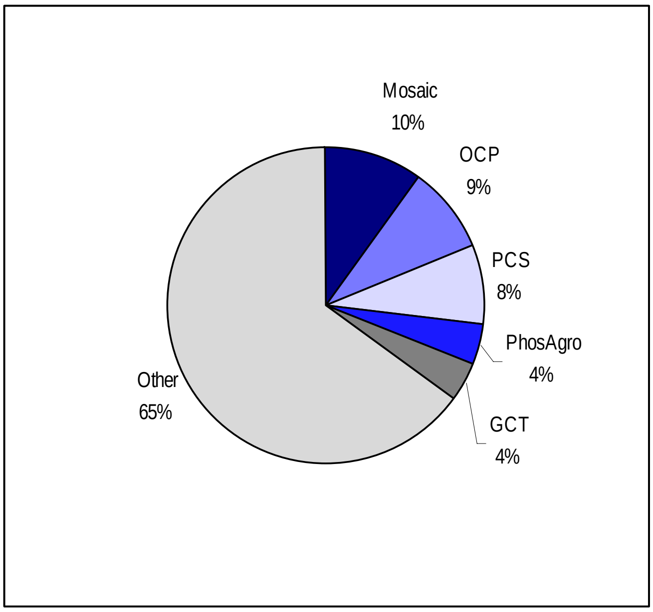
Source: Company reports and UBS Securities estimates.

Chart 78: Mosaic: F2008 Operating Profit by Segment
percent of $9.8 billion total



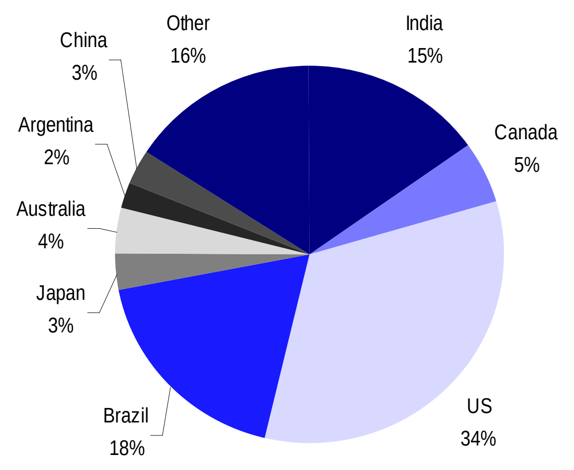
Source: Company reports and UBS Securities estimates.

Chart 79: Mosaic is the world's largest phosphoric acid producer



Source: Fertecon, company reports and UBS Securities estimates.

Chart 80: Mosaic sales by end market geography, F2007



Source: Company reports and UBS Securities estimates.

Valuation

Table 17: EPS Sensitivity to Fertilizers and Feedstocks

	F2009E Year-End Capacity	EPS Sensitivity *
Fertilizer	(000 metric tons)	
Potash	10,375	$1.09
DAP/MAP	9,410	$0.14
	Maximum Annual	EPS
Feedstock	Maximum Annual Usage	Sensitivity *
Natural Gas (mmBTUs)	90	$0.13
Sulphur	3,800	$0.55
Ammonia	2,138	$0.31

Source: UBS estimates

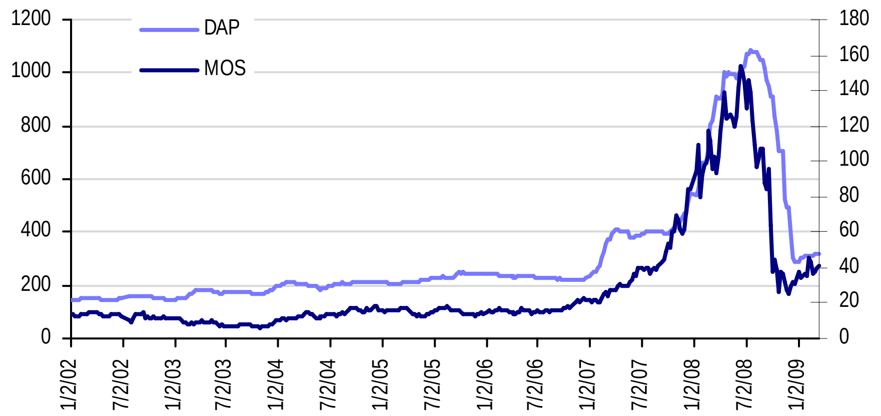
Mosaic is the most levered phosphate play (see nearby chart for earnings leverage), and thus the stock moves in line with changes in diammonium phosphate (DAP) prices (see chart below). We believe phosphate markets are operationally coming to mimic that of potash, as tightness in the fertilizer is ultimately driven by limited rock mining capacity. We look for international phosphate rock prices to stabilize during the second half of 2009 and improve in F2010, putting more pressure on margins of non-integrated producers, leading to either shuttered capacity and/or higher DAP selling prices.

Our $63 price target for Mosaic is based on an 7.5x multiple of our F2009E EBITDA estimate (9.7x calendar year), derived from a sum-of-parts valuation analysis. We use 4.5x, 6.0x, and 7.5x EV/EBITDA multiples for the nitrogen, phosphate, and potash businesses, representing mid-level multiples relative to historical ranges. Risks to our price objective are a loss of the Esterhazy potash mine from worsening brine inflow, a significant decline in global fertilizer demand, earlier-than-expected new phosphate or potash capacity additions.

The greatest risk to our estimate and price objective for Mosaic would be a prolonged pull-back in grain prices. We expect production pressures and economic recovery will allow global grain supplies to gradually tighten during 2009-10.

Chart 81: MOS is highly correlated with DAP prices

($/st) (MOS %/sh)

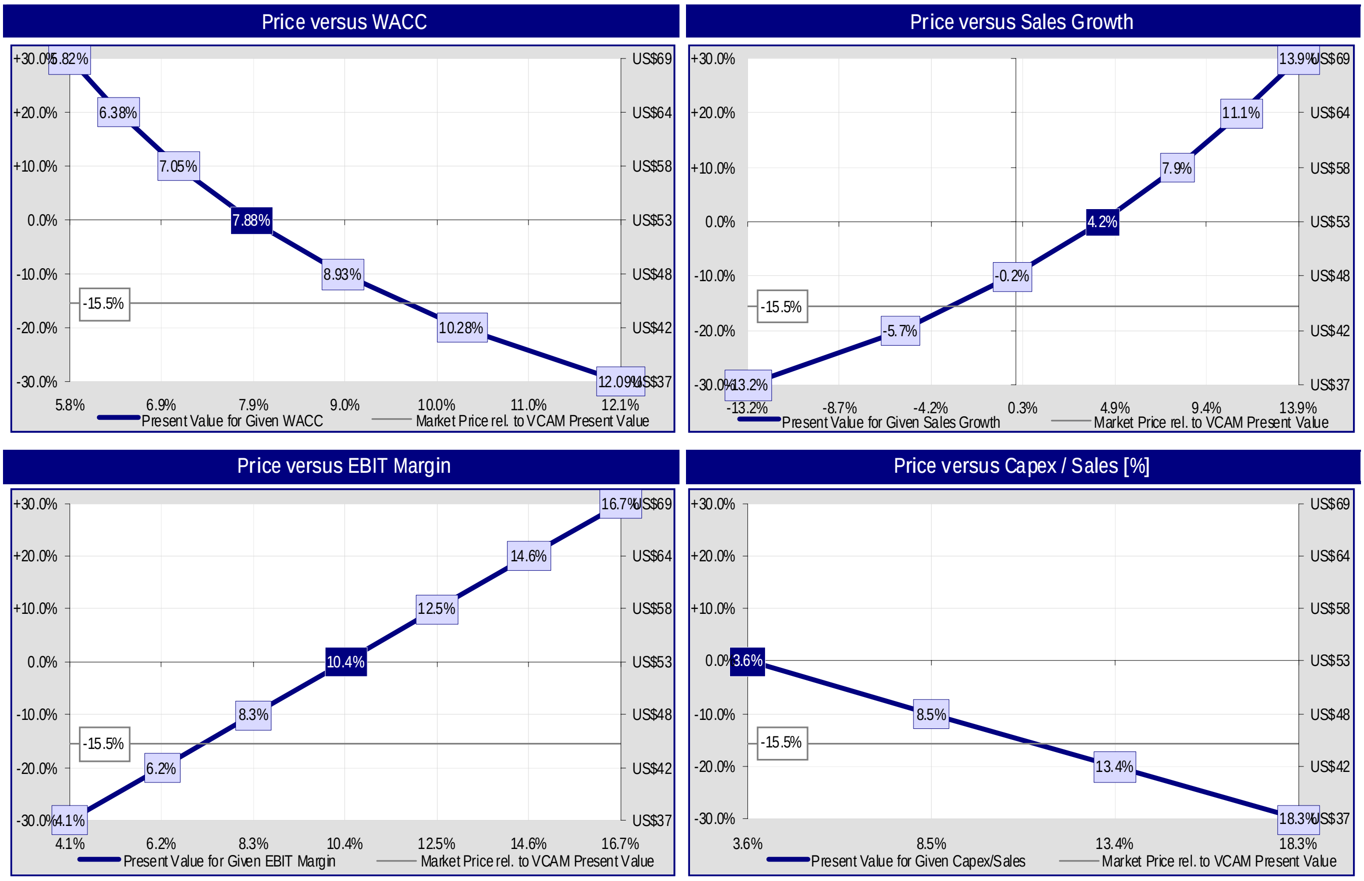


Source: FactSet and Green Markets

Earnings Outlook

We initiate coverage of Mosaic with EPS estimates of $5.70 for F2009 and $5.15 for F2010, compared with $4.43 in F2008 and $0.80 in F2007. Our VCAM analysis supports our $57 price target using a WACC of 7.88% and a terminal growth rate of 3.6%.

Chart 82: UBS VCAM Sensitivities for Mosaic [MOS.N]

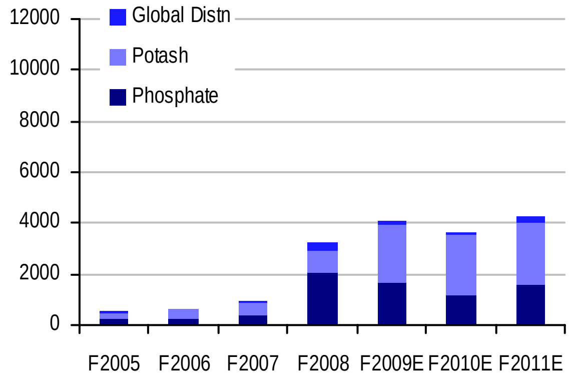


Notes: Sensitivities are derived from assuming Sales Growth, EBIT Margin, or Capex / Sales is flat annually for years 4 through the VCH.
Explicit estimates in years 1 through 5 do not vary, and always represent the assumptions on the Inputs Page.
For each chart, one parameter is varied while the others are held constant. Those held constant are set as they appear on the Inputs Page.

Source: UBS VCAM

Chart 83: Annual Gross Profit by Segment F2005-F2011E

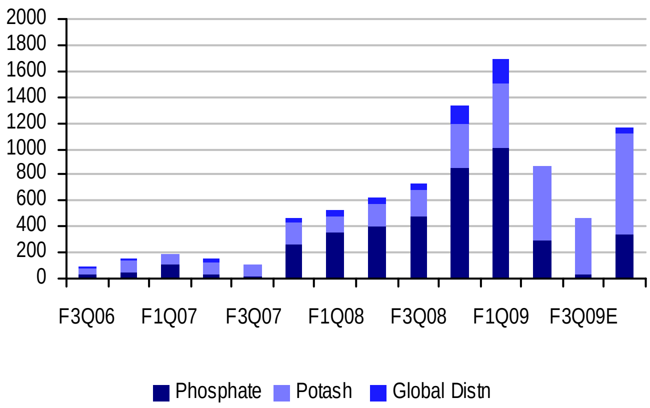
($ millions)



Source: Company reports and UBS estimates.

Chart 84: Quarterly Gross Profit by Segment F2005-F2010E

($ millions)



Source: : Company reports and UBS estimates.

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Table 18: Mosaic: Key Segment and Operating Data

$ millions, except as noted

	F2005	F2006	F2007	F2008	F2009E	F2010E
Segment Sales						
Phosphate	$2,312.5	$3,097.5	$3,203.9	$5,706.2	$6,128.6	$4,297.1
Potash	869.4	1155.9	1478.9	2251.2	4511.1	4680.6
Nitrogen	119.8	143.5	129.1	0.0	0.0	0.0
Global Distribution	1228.9	1238.9	1355.6	2223.8	3160.4	2550.0
Corporate	(133.9)	(330.0)	(393.8)	(368.6)	(1024.7)	1005.9
Total	$4,396.7	$5,305.8	$5,773.7	$9,812.6	$12,775.3	$12,533.6
Operating Profit						
Phosphate	$136.3	$148.3	$311.2	$1,907.4	$1,504.9	$1,035.0
Potash	251.4	309.8	368.2	798.6	2,211.4	2,226.4
Nitrogen	10.9	11.2	5.3	0.0	0.0	0.0
Global Distribution	23.0	(20.4)	(1.0)	175.4	(9.6)	44.0
Corporate	(31.8)	(55.5)	(67.4)	(64.4)	(162.6)	(128.0)
Total	$389.8	$393.4	$616.3	$2,817.0	$3,544.1	$3,177.4
Price/Volume Trends						
Phosphate Volumes (M mt)	8.815	10.095	8.919	9.084	7.000	8.220
Avg DAP Price ($/mt)	$222	$245	$264	$513	$701	$402
Potash Volumes (M mt)	5.453	6.499	7.881	8.562	7.369	7.950
Avg Potash Price ($/mt)	$124	$140	$141	$226	$537	$531

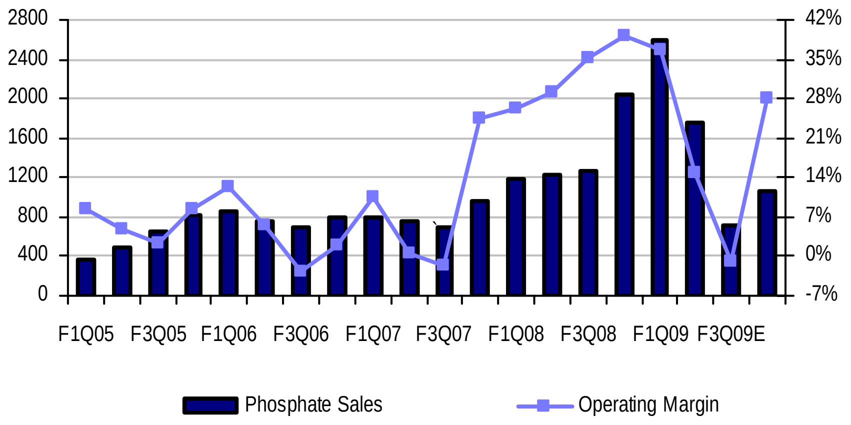
Source: Company reports and UBS estimates.

Phosphate Margins to Stabilize in Coming Months

We look for DAP prices and margins to stabilize in coming months and strengthen in F2010 a significant near-term improvement in Mosaic's phosphate operating margins. The benchmark Tampa DAP price plummeted from an all-time record high of $1.200 per metric ton in September 2008 to a low of $335 per metric ton before rebounding to near $375 per metric ton. Soaring demand led to its unprecedented price spike upward in 2008, and a buyer's strike this past fall led to the market collapse. Looking ahead, producer discipline has kept phosphate selling prices at profitable levels, while poor economics for non-integrated producers (i.e., those that lack captive source of phosphate ore) appear likely to support moderate gains through spring.

For F2010, we believe global demand will return to trendline rates, and allow global utilization rates to rise. We do not expect DAP selling prices and cash margins per ton to approach the mid-2008 highs of $1200/mt and $700/mt, respectively.

Chart 85:Mosaic Company: Phosphate Segment Sales and Operating Margin, Quarterly F2005-F2009E

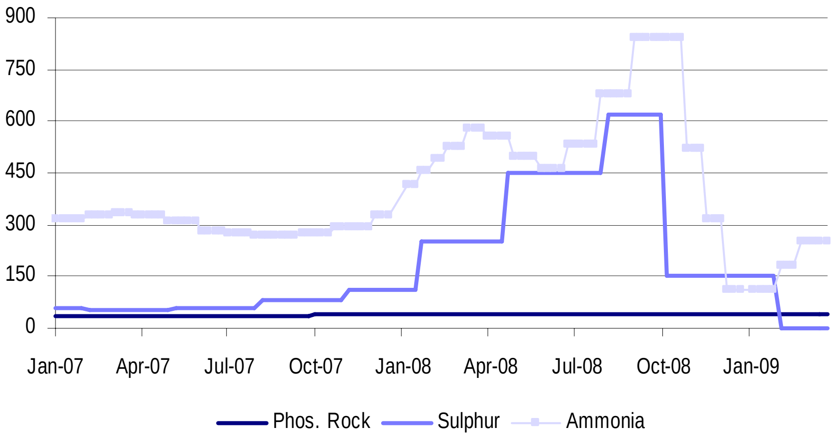


Source: Company reports and UBS estimates.

Plummeting raw material costs have significantly mitigated the margin decline in DAP. (see chart below). The spectacular decline in DAP selling prices since last summer have been matched in part by exceptionally sharp declines in costs for raw materials and freight. This has offset a significant portion of the decline in selling prices and allowed benchmark DAP cash margins to remain solidly positive. Quarterly contract costs for feedstock sulphur have declined from $617 per long ton in 3Q:08 to $0.00 (free) in 1Q:09, a change that reduces benchmark cash production costs by approximately $272 per metric ton of DAP (based upon 0.44lt of sulphur per mt of DAP). Similarly the decline in Tampa contract ammonia costs from a peak of $931 per metric ton to a recent level of $318/mt represents a cost decline of approximately $137 per metric ton of DAP (0.223 mt of Ammonia per mt DAP). Longer-term, we remain confident that Mosaic will maintain its long-term cost advantage over non-integrated DAP producers who must purchase phosphate rock from merchant sellers at $150/mt or more, versus cash costs to mine captive rock of $45/mt or below. All things equal, this could represent a cost advantage for Mosaic of approximately $178 per metric ton (1.7 mt of rock per mt DAP) domestic mining costs. We estimate current benchmark cash margins for Tampa DAP at $190-$200/mt, based upon recent selling prices of $375/mt. As industry operating rates recover to more traditional levels, we believe Mosaic will be able to report sequential improvement in gross profit as reported results begin to track benchmark trends.

The margin strength for US phosphate producers is attributable to captive supplies of phosphate rock. We estimate – cash production costs for rock are currently ~$70-$80 per ton of DAP for US producers versus $200 or more for non-integrated producers.

Chart 86: Phosphate: Weekly Trends in DAP Raw Material Costs January 2007-Present ($ per short ton)



Source: *Green Markets*, UBS estimates.

Potash: Profit Continues to Rise on Stronger Prices, Weaker Volumes

We look for further increases in Mosaic's Potash segment gross profit during the next few quarters. Sharply higher average Selling prices will more than offset expected declines in shipment volumes, a consequence of the buyer's strike that affected all major fertilizer products in response to global economic uncertainty and credit constraints. Spot selling prices in Asia have declined from more than $1,000/mt delivered to $850-$900/mt. Brazilian buyers recently agreed to pay $750/mt delivered, versus asking prices of $1,000/mt in recent months.

Virtually all major global potash producers have been affected by the slowdown, including Mosaic. As a result, we believe producers will experience sharply lower production and shipment levels. We expect this situation to gradually unwind during 2009-2010 as major buyers return to market and customers seek to replenish their depleted stocks. There remains a risk that continued sluggish demand could lead producers to cut price to maintain sales volumes, potentially leading to a collapse in potash selling prices. However, we would point to Potash Corp's recent announcement of a further 1.5 million mt production cutback as a sign that producers remain committed to managing inventories mainly through production cuts.

We do not expect major Chinese buyers to settle their 2009 supply contracts before June, when they could agree to flat-to-higher annual volumes at a flat-to-lower purchase price with 2008 (basis FOB Vancouver). One wildcard will be the strategies of buyers in India, who benefited from settling their annual agreements ahead of China, surprising other buyers. An earlier settlement by Chinese and Indian buyers would be viewed as a positive sign for future demand.

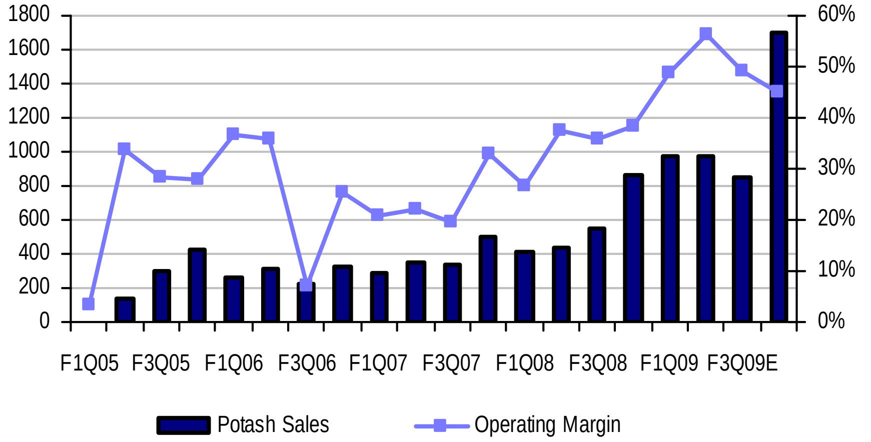
Mosaic's reported unit gross profit levels for its potash business appear lower than Potash Corp.'s, as Mosaic includes their Saskatchewan's provincial

Mosaic's unit gross profit levels for its potash business appear lower than Potash Corp.'s, as Mosaic includes the Saskatchewan's provincial resource tax in costs of goods sold, whereas POT lists this tax below the gross profit line. We estimate Mosaic's PRT to average $105/mt in F2009 versus $43/mt in F2008.

resource tax in costs of goods sold, whereas POT lists this tax below the gross profit line. For Mosaic, we estimate this will approximate $110/mt of potash shipped inF2009, versus $43/mt shipped in F2008.

Chart 87: Mosaic's potash unit profits on the rise

revenue in $ millions, operating margin in %



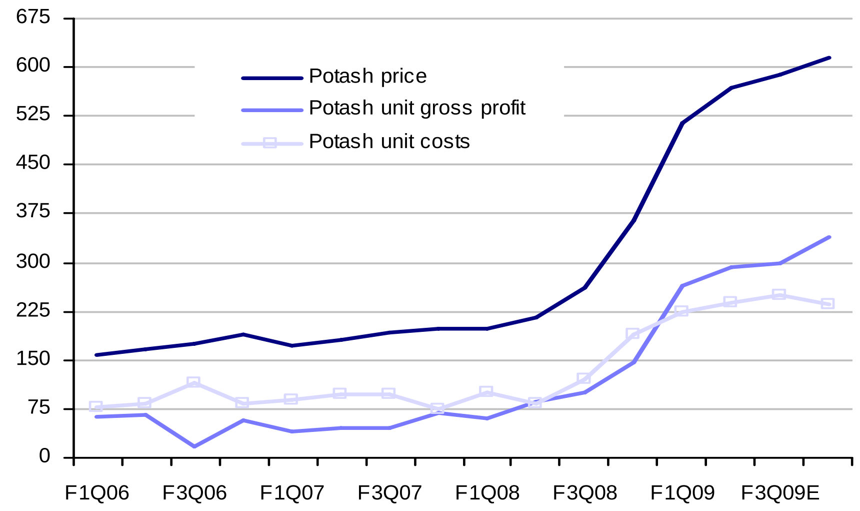
Source: Company reports and UBS Securities estimates.

Mosaic's potash business has excellent long-term earnings prospects, despite short-term demand concerns. Our favorable view is based upon strong multi-year demand expectations driven by continued economic development in emerging markets plus global biofuels growth, combined with limited new capacity additions from non-Canpotex sources. Mosaic announced a long-term program (through 2020) to spend up to $3.0 billion to expand potash capacity at existing mines.

Our potash price and unit gross profit assumptions for Mosaic's 2H:F09 are illustrated below. Note that we expect unit costs to average $242/mt, up from ~$158/mt in 2H:F09. Main factors include an estimated $110/mt in royalty fees for F2009, versus $43/mt in F2008.

Chart 88: Potash unit profits to increase sharply

$ per metric ton



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Source: Company reports and UBS estimates

As the second largest global potash producer, Mosaic has significant leverage to rising potash prices. Mosaic expects to increase its economic exposure to potash by 2.8 million metric tons by 2012. 1.3 mm metric tons of this exposure occurs with the expiration of a long-term tolling arrangement at Esterhazy. Mosaic also announced further expansions post 2012 but we expect them to occur in line with global demand growth

Offshore Distribution

Mosaic's offshore segment consists of warehousing and distribution facilities in 11 countries, along with phosphate production joint ventures in Brazil and China. The company has significant exposure to Brazil, as Mosaic is the number two producer and distributor of fertilizers in this country, behind Bunge. Mosaic's offshore business has had positive operating margins for the last four quarters, versus negative margins for the previous two years, owing to the recovery in the Brazilian ag economy.

Nitrogen

Mosaic divested its relatively small but profitable nitrogen business, based on its 50% owned Saskferco jv in Saskatchewan. Saskferco was sold to Yara in October 2008 for $1.5 billion, of which Mosaic received half. We consider a very full price. Mosaic recorded an after-tax gain of $459 million on the divestiture in the second quarter.

Table 19: Mosaic Company: Consolidated Statements of Income F2006-F2010E

			2008					F2009					F2010
	F2006	F2007	F1Q	F2Q	F3Q	F4Q	F2008	F1QA	F2QA	F3QE	F4QE	F2009E	F2010E
Total sales	5,305.8	5,773.7	2,003.3	2,195.4	2,147.2	3,466.7	9,812.6	4,322.5	3,006.5	1,994.2	3,452.2	12,775.3	11,806.4
Cost of goods sold	4,344.3	4,518.2	1,399.3	1,487.8	1,332.6	2,074.3	6,294.0	2,586.2	2,143.4	1,492.4	2,248.5	8,470.6	7,843.0
Depreciation & amortization	324.1	329.4	82.2	84.5	86.7	104.7	358.1	87.7	89.4	89.0	92.0	358.1	360.0
Gross profit	637.4	926.1	521.8	623.1	727.9	1,287.7	3,160.5	1,648.6	773.7	412.7	1,111.6	3,946.7	3,603.4
Gross margin (%)	12.0%	16.0%	26.0%	28.4%	33.9%	37.1%	32.2%	38.1%	25.7%	20.7%	32.2%	30.9%	
SG&A expense	241.3	309.8	66.6	79.8	81.2	96.2	323.8	90.0	76.8	86.0	107.2	360.0	383.0
Other operating expense	2.7	0.0	5.6	3.4	(0.7)	11.4	19.7	9.7	14.9	9.0	9.0	42.6	43.0
Operating profit	393.4	616.3	449.6	539.9	647.4	1,180.1	2,817.0	1,548.9	682.0	317.7	995.4	3,544.1	3,177.4
Operating margin (%)	7.4%	10.7%	22.4%	24.6%	30.2%	34.0%	28.7%	35.8%	22.7%	15.9%	28.8%	27.7%	26.9%
Interest Expense	166.5	164.7	34.0	25.5	24.7	6.3	90.5	10.6	8.3	10.0	9.1	38.0	24.0
Currency (Gain) / Loss	100.6	8.6	19.4	52.4	(1.5)	(12.8)	57.5	(86.7)	(32.3)	0.0	0.0	(119.0)	0.0
Other expense (income)	(1.2)	(13.1)	0.0	(1.2)	(1.9)	4.0	0.9	0.0	(4.4)	2.5	5.0	3.1	10.0
Earnings before taxes	127.5	456.1	396.2	463.2	626.1	1182.6	2668.1	1625.0	710.4	305.2	981.3	3622.0	3,143.4
Provision for taxes	88.3	142.5	100.8	139.9	188.1	378.1	806.9	497.7	236.7	97.7	314.0	1146.1	1005.9
Effective tax rate (%)	69.3%	31.2%	25.4%	30.2%	30.0%	32.0%	30.2%	30.6%	33.3%	32.0%	32.0%	31.6%	32.0%
Equity Affiliate Income	48.4	41.3	11.8	45.5	30.9	35.8	124.0	59.8	28.7	(5.0)	(3.5)	80.0	51.0
Minority interest	(4.4)	(3.9)	(1.7)	(3.5)	(1.6)	(1.9)	(8.7)	(3.9)	(1.5)	(3.0)	(2.6)	(11.0)	(18.0)
Net income (recurring)	83.2	351.0	305.5	365.3	467.3	838.4	1976.5	1183.2	500.9	199.6	661.2	2544.9	2,170.5
Discops and extras	(204.6)	68.7	0.0	28.7	53.5	24.1	106.3	0.0	458.9		0.0	0.0	0.0
Net income (reported)	(121.4)	419.7	305.5	394.0	520.8	862.5	2082.8	1183.2	959.8	199.6	661.2	2544.9	2,170.5
									1.80	1.59	2.47	8.50	0.0
Recurring EPS	$0.22	$0.80	$0.69	$0.82	$1.05	$1.88	$4.43	$2.65	$1.12	$0.45	$1.48	$5.70	$4.85
Reported EPS	(0.32)	0.95	0.69	0.89	1.17	1.93	4.67	2.65	2.15	0.45	1.48	5.70	
Diluted shares outsatnding	382.2	440.3	444.3	445	446.1	446.5	445.7	446.5	446.1	446.0	446.6	446.3	447.5
Dividends Declared	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.05	$0.05	$0.10	$0.20
EBITDA	866.5	995.6	563.0	722.3	763.5	1307.8	3,356.6	1609.7	767.8	401.7	1083.9	3,863.2	3,588.4
EBITDA/share	2.3	2.3					7.53	3.61	1.72	0.90	2.43	8.66	8.02
Gross Cash Flow (NI + D&A)	407.3	680.4	387.7	449.8	554.0	943.1	2,334.6	1270.9	590.3	288.6	753.2	2,903.0	2,530.5
Free Cash Flow (CFO - Capex)	(110.0)	415.8					2,174.5					1,265.8	1,265.8

Source: Company reports, UBS Securities estimates.

UBS Investment Research

Terra Industries Inc.

Sticking to its Knitting

■ We initiate coverage of Terra Industries with a Neutral rating

Terra Industries is one of the world's largest producers of nitrogen fertilizers, one with considerable competitive strengths derived from its near-singular focus for decades on nitrogen fertilizer products for North America. It turns its 4 million short tons of ammonia into the industry's broadest array of products for agriculture and industry.

■ North American Nitrogen: consolidation ahead

We suspect that the three-way battle for control among Agrium, CF Industries, and Terra will see Terra remain independent and Agrium and CF combine. If so, then TRA shares could decline as any takeover premium is eliminated. In the meantime the sharp year-to-date appreciation in TRA stock has reduced its undervaluation,

■ Softer demand environment poses near-term challenges

We expect Terra to enjoy a busy and profitable spring, with lower natural gas ccosts an unexpected windfall. However, forecasted pricing and cash margins will fall well short of 2008's record levels. Post-spring, we are concerned that new supply plus soft industrial demand could lead to excess supply and downward price pressure. Compared with other nutrients, global Nitrogen markets are more fragmented and production discipline is less prevalent.

■ Valuation—$29 price target

Our $29 PT is based on a mid-cycle EV/EBITDA multiple of 5.0x our F2009 EBITDA estimate. This is also matched by our sum-of-parts valuation analysis, utilizing a multiple of 5x EBITDA for their nitrogen business. Our price target represents a steep discount to its 52-week high of $57. Primary risks include either a prolonged decline in global fertilizer demand or accelerated pace of new nitrogen capacity additions.

Highlights (US$m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	2,343.24	2,891.48	1,990.09	2,096.63	1,969.97
EBIT (UBS)	448.37	848.73	410.34	503.02	289.20
Net Income (UBS)	241.16	632.77	274.72	343.34	192.36
EPS (UBS, US$)	2.27	6.12	2.75	3.50	2.00
Net DPS (UBS, US$)	0.00	0.00	0.00	0.00	0.00

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	-	29.4	20.6	24.0	14.7
ROIC (EBIT) %	-	419.6	117.6	116.6	70.3
EV/EBITDA (core) x	-	3.1	4.2	3.3	4.6
PE (UBS) x	-	6.2	10.4	8.2	14.3
Net dividend yield %	-	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$28.66 on 25 Mar 2009 19:40 EDT

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Global Equity Research

Americas

Chemicals, Commodity

12-month rating	Neutral *Prior: Not Rated*
12m price target	US$29.00 -
Price	US$28.66

RIC: TRA.N BBG: TRA US

Trading data	
52-wk range	US$55.72-11.25
Market cap.	US$2.93bn
Shares o/s	102m (COM)
Free float	98%
Avg. daily volume ('000)	673
Avg. daily value (US$m)	14.9

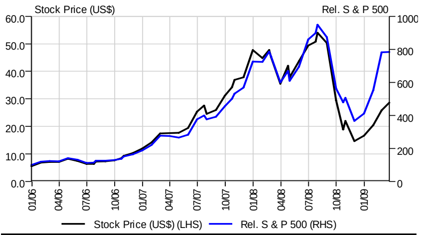
Balance sheet data 12/09E	
Shareholders' equity	US$1.32bn
P/BV (UBS)	2.2x
Net Cash (debt)	US$0.76bn

Forecast returns	
Forecast price appreciation	+1.2%
Forecast dividend yield	0.0%
Forecast stock return	+1.2%
Market return assumption	6.0%
Forecast excess return	-4.8%

EPS (UBS, US$)

	12/09E			12/08
	From	To	Cons.	Actual
Q1E	-	0.40	0.47	0.97
Q2E	-	1.15	0.86	1.87
Q3E	-	0.60	1.00	1.64
Q4E	-	0.60	1.00	1.63
12/09E	-	2.75	*3.27*	
12/10E	-	3.50	*3.46*	

Performance (US$)



Source: UBS

Terra Industries

Company Overview

Terra Industries is a near pure-play nitrogen fertilizer producer with four manufacturing facilities in the US, one in Canada, and two joint ventures, one in the UK and one in Trinidad. The company has largely been created from a series of opportunistic acquisitions, which the company has skillfully knitted together into a very strong North American production and distribution network with a growing international presence. In North America, Terra's primary operating advantage is its network of production facilities located in the heart of the US Cornbelt, where it has product and logistical advantages over competing imports. Terra also has a small methanol business.

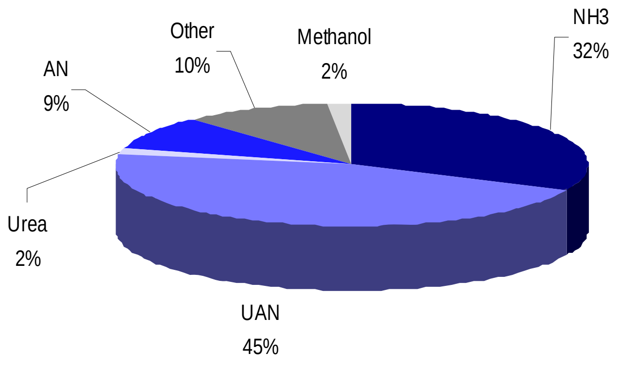
In January 2009, CF Industries announced a bid to acquire Terra Industries. As of March 24, 2009 CF proposes to exchange CF stock valued at a maximum of $30.50 per share for each share of Terra common stock, subject to an exchange ratio of not less than 0.4129 share of CF common and not more than 0.4539 share of CF common stock. We calculate that at a CF share price of $67.195 or below, the value of the offer to a TRA shareholder would be less than $30.50 per share. (i.e., $30.50 per TRA share / 0.4539 CF share) or below)

On February 25, 2009 Agrium offered to acquire CF Industries for a cash and stock package initially valued at $72.00 per share consisting of (1) $31.70 per share in cash and one share of AGU common stock. One condition of Agrium's bid was that CF drop its bid to acquire Terra. CF rejected this proposal on March 9, 2009.

Nothing is certain, though our current view is that Terra is likely to remain independent as CF and AGU merge. Should these events occur, TRA share price could suffer as some holders liquidate at the prospects of realizing no takeover premium from holding the stock.

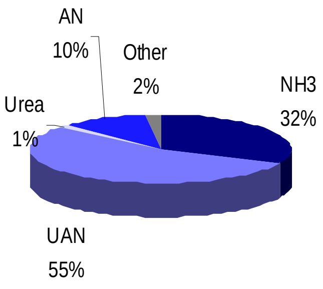
Please refer to the section titled "M&A Overview" in this report for further details regarding key events related to these offers and our key conclusions.

Chart 89: Terra Industries: Revenue by product, 2008E
(in percent of $2.880 billion)



Source: Company reports and UBS Securities estimates.

Chart 90: Terra Industries: Gross Profit by product, 2008E



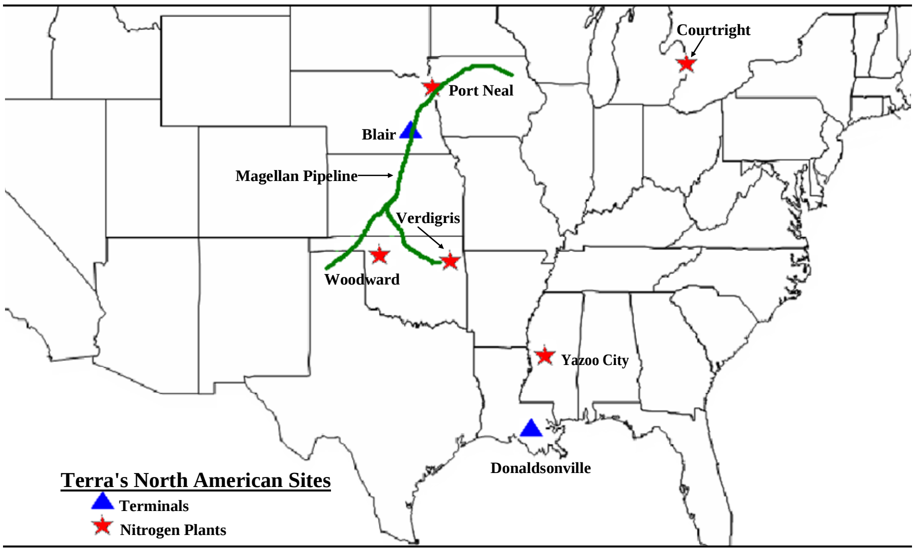
Source: Company reports and UBS Securities estimates.

Terra produces each of the four primary types of nitrogen fertilizer, which provide different agronomic benefits to the grower. The largest volume and revenue-generating products are urea-ammonium-nitrate solutions (UAN), which have gained popularity in the Cornbelt during the past 20 years. UAN can be applied under a broad range of soil moisture conditions, and unlike urea and ammonia, can be applied simultaneously with irrigation water or herbicides. UAN has historically been priced to provide the supplier with an upgrading margin, i.e., it has generated higher profit margins than single form of nitrogen fertilizers such as ammonia and urea.

Terra's Port Neal and Verdigris manufacturing plants and its terminal in Blair, NE, are all on the Magellan pipeline, which provides a low-cost means to ship ammonia in the western Cornbelt.

AN has become increasingly profitable, as other AN producers have exited this market because of its hazards and government scrutiny.

Chart 91: Terra's Cornbelt nitrogen plants are well located to supply incremental demand



Source: Company reports

Ammonium nitrate (AN) is the primary nitrogen product produced by Terra's UK jv and at the Yazoo City, Mississippi facility. Yazoo City is by far the largest domestic AN production facility. AN in a low-density form is the preferred nitrogen fertilizer for pasture and forage crops. A high-density form of AN is sold to providers of commercial explosives.

Table 20: Terra Industries: EPS Sensitivities to major Nitrogen Products
(2009E year-end capacity in 000 short tons)

Plant Location	Ammonia (Gross)	Nitrogen Solutions (UAN 32% N)	Ammonium Nitrate (AN)	Urea
Donaldsonville, Louisiana	500	0	0	0
Port Neal, Iowa	370	735	0	60
Verdigris, Oklahoma	1,050	1,925	0	0
Woodward, Oklahoma	440	300	0	25
Yazoo City, Mississippi	500	525	775	20
Courtright, Ontario	480	350		175
Point Lisas, Trinidad **	360			
Ince / Billingham, UK (GrowHow jv) **	426		603	
Totals	4,126	3,835	1,378	280
EPS Sensitivity *	$0.28	$0.26	$0.09	$0.02

Source: Company reports and UBS Securities estimates. Totals represent merchant capacities for Urea, AN, and UAN, and gross capacity for ammonia.

* EPS sensitivity to $10/st margin change for Ammonia, UAN, AN, and Urea, and $0.10/gallon margin change for Methanol.

Margin change presented for UAN, AN, and Urea is versus Ammonia. UAN capacity is for 32% N product. Assumes 100.7 million diluted shares and a 32% tax rate.

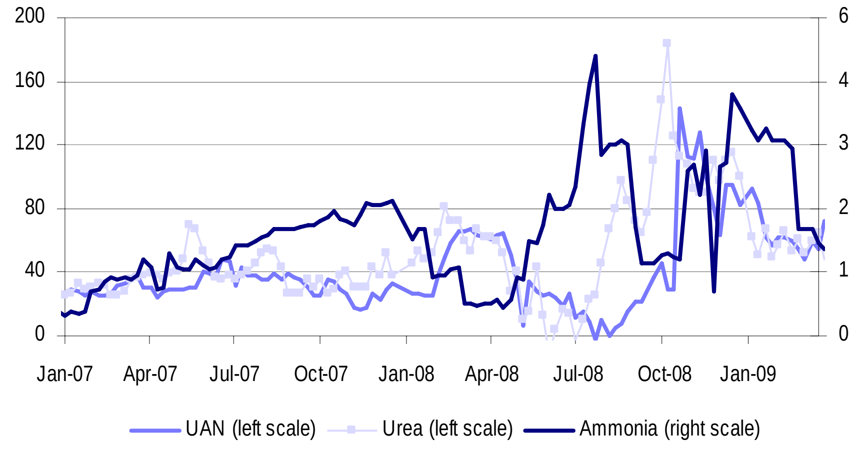
** Trinidad and UK totals reflect Terra's proportionate share of joint venture capacity. Terra owns 75.4% equity stake and is the general partner of the Verdigris, OK facility.

*** $180 mm expansion will raise Woodward UAN capacity from 300 kst to 825 kst by year-end 2010.

**** Woodward is ammonia / methanol" swing" capacity with maximum methanol production capability of 40 mm gallons.

Terra has a strategic position in the western Cornbelt. Four of Terra's nitrogen production facilities are in the western and northern Cornbelt regions, where profit margins are significantly greater than product sold near the US Gulf. We attribute these wider margins to the freight costs of shipping product into this region, combined with the consolidated nature of the wholesale distribution channel. Only four companies (Koch, CF, Terra, and Agrium) own ammonia terminals along the upper Mississippi River (and tributaries) and on the Valero and Magellan pipelines, which collectively represent the primary transportation modes for imported ammonia to reach the Cornbelt. Being a pure-play in nitrogen, Terra's shares move with Cornbelt nitrogen prices, which we look to increase further in the next few quarters, owing to expectations for 8-10 million additional corn acres.

Chart 92: Nitrogen: Coastal Inland Spreads For Nitrogen Fertilizers
($ per short ton)



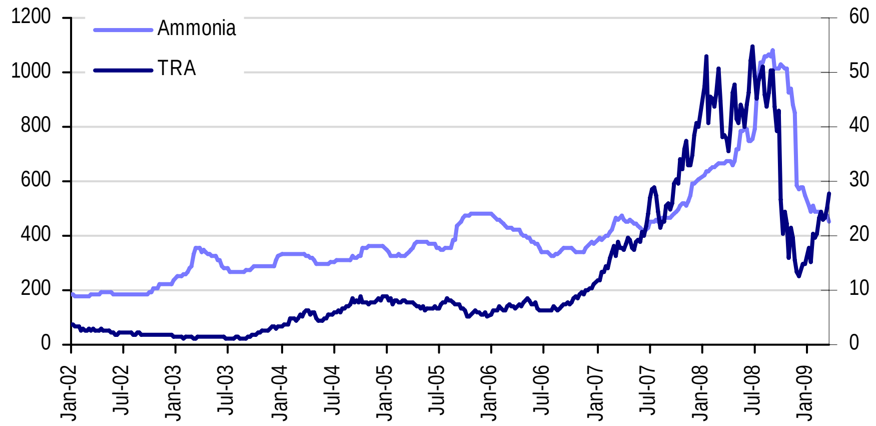
Source: Green Markets and UBS Securities estimates.

We also believe that profit margins in the Farm Belt have widened versus those in the US Gulf due to high fertilizer price volatility, which discourages speculative imports

Valuation

Chart 93: TRA and ammonia prices are highly correlated

($/st) (TRA $/sh)



Source: FactSet and Green Markets

Our $29 price target for Terra is based on a 4.5x multiple of our 2009E EBITDA estimate, representing a mid-level multiple relative to the historical range. The stock currently trades at approximately 4.4x and 3.6x our 2009 and 2020 EBITDA estimates, respectively. This valuation is supported by our sum-of-parts valuation analysis. We use 4.5x EV/EBITDA multiples for the nitrogen businesses, representing mid-level multiples relative to historical ranges

The risks to our estimates and price target are sharply higher North American natural gas prices, adverse planting weather in the Cornbelt, lower corn prices and lower corn-derived ethanol demand.

Earnings Outlook

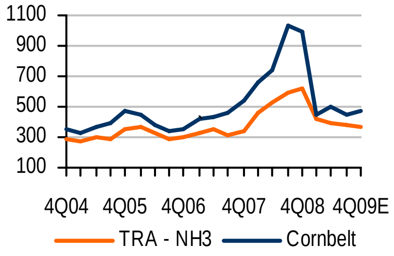
Our EPS estimates for Terra are $2.75 in 2009 and $3.50 in 2010, versus a record $6.12 in 2008 and $2.27 in 2007. We forecast Terra will generate EBITDA of $533 million in 2009 and $641 million in 2010, versus a record $1.066 billion in 2008 and $523 million in 2007.

We estimate that Terra will generate $445 million in cash flow from operations in 2009; with a free cash flow yield of 8%. With relatively few large capital projects under consideration, we expect Terra to increasingly return cash to shareholders

Post-spring, we believe fertilizer demand and selling prices could ease due to seasonally slow agricultural demand plus pressures on industrial use frm the sluggish world economy. Beginning in the fall, we judge that healthy grain prices and lower fertilizer and fuel costs (versus the prior year) will strengthen corn cash returns per acre and build optimism for 2010 plantings. A significant increase in US corn plantings likely will be needed in 2010 to rebuild low ending inventories and provide for mandated increases in domestic ethanol consumption, which is very positive for nitrogen demand.

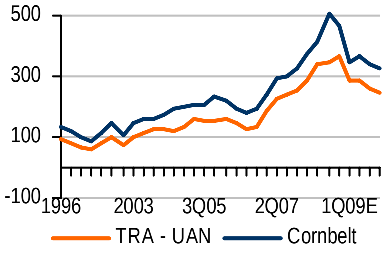
We look for Terra's net realized prices to gradually increase by harvest time, as the spread with market prices normally narrows in a more stable price environment. As illustrated in the charts below, our 2009 estimates for Terra assume the net realized prices lag behind spot price, reflecting forward purchase activity for the spring.

Chart 94: Terra's Ammonia prices vs. market prices ($ per short ton)



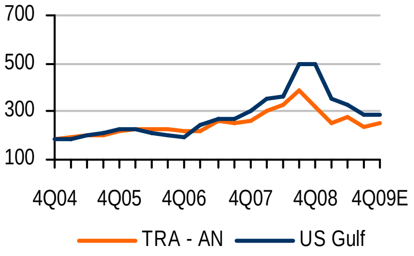
Source: Company reports and UBS Securities estimates.

Chart 95: Terra's UAN prices vs. market prices ($ per short ton)



Source: Company reports and UBS Securities estimates.

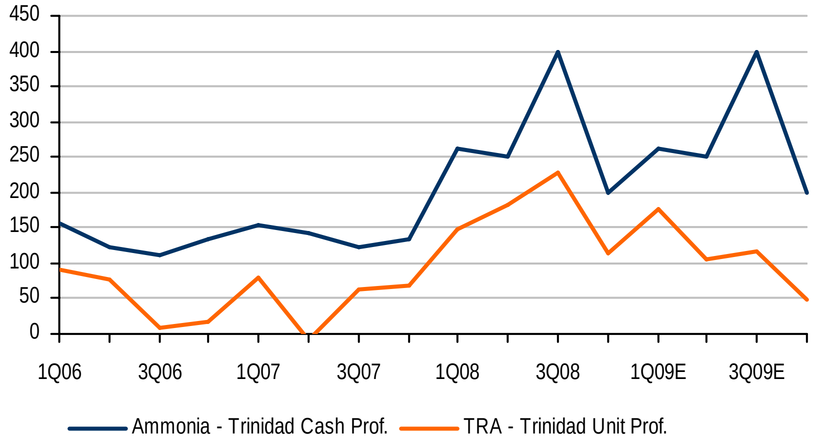
Chart 96: Terra's AN prices vs. market prices ($ per short ton)



Source: Company reports and UBS Securities estimates.

We look for continued healthy results from Terra's Trinidad jv in 2009-10 (see chart below), though at levels well below those in 2008, when US Gulf ammonia selling prices reached record levels in the US Gulf, a key end market for Trinidad nitrogen producers. The Trinidad government shares a portion of the downside of lower ammonia prices through some variability in prices paid for its natural gas supply. We estimate changes in ammonia selling prices above a relatively modest threshold value are split roughly 65:35 between the producers and the government

Chart 97: Terra's Trinidad profits are expected to moderate in 2009



Source: Green Markets and UBS Securities estimates.

Terra has re-started Donaldsonville, Louisiana, and Woodward Oklahoma, ammonia plants in the first quarter of 2009, which will mainly replace ammonia tonnage currently imported. Ammonia prices in the US Gulf region are now \$275/st, up from a shutdown-inducing level of \$120/st at year-end 2008. Cornbelt ammonia are \$400/st, down from \$450/st at year end 2008 and \$1,000/st or higher during the third quarter of 2008. Unit cash margins for US-sourced ammonia sold in the US Gulf remain at decent levels due to relatively low natural gas costs. Margins in the US Gulf region are roughly \$100/st, based on \$4.25/MMbtu gas costs.

Table 21: TRA's income statement

	2006	2007					2008					2009E	2010E
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	Year
Product revenues	$1,829	$2,336	$573	$837	$788	$682	$2,880	$460	$650	$400	$469	$2,339	$2,085
Other income	8	7	2	6	2	2	11	2	4	2	4	12	12
Total revenues	1837	2343	575	843	790	683	2891	462	654	402	473	2351	2097
Cost of sales	1732	1819	407	547	578	496	2028	389	476	299	374	1839	1553
Gross Profit	105	524	168	296	212	188	863	73	178	102	99	512	544
SG&A	55	92	13	27	18	12	71	16	26	20	15	85	81
Recovery of Product Claims	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity Aff. Inc. (Trinidad)	-17	-16	-13	-17	-16	-11	-56	-10	-12	-8	-5	-40	-40
Equity Aff. Inc. (GrowHow UK)		-5	9	38	42	7	96	7	20	10	10	60	50
Interest income	6	17	8	6	5	4	23	5	7	6	6	20	24
Interest expense	(48)	(29)	(7)	(7)	(7)	(7)	(27)	(7)	(7)	(7)	(7)	(30)	(27)
Preferred stock dividends	(5)	(4)	(1)	(1)	(7)	(0)	(9)	(0)	(0)	(0)	(0)	0	0
Loss on early ret. of debt	0	(0)	0	0	0	0	0	0	0	0	0	0	0
Minority interest	(11)	(50)	(18)	(18)	(16)	(15)	(68)	(13)	(15)	(12)	(10)	(55)	(45)
Inc. (loss) b/t & min. interest	13	381	161	303	234	174	873	59	170	88	88	462	505
Inc. tax benefit (provision)	(9)	(140)	(60)	(107)	(63)	(10)	(240)	(19)	(54)	(28)	(28)	(148)	(162)
Tax rate	69%	37%	37%	35%	27%	29%	27%	32%	32%	32%	32%	32%	32%
Recurring net income (loss)	4	241	101	196	171	164	633	40	115	60	60	314	343
Recurring Net Income	-1	237	100	195	165	164	624	40	115	60	60	314	343
Diluted Shares	93	106	104	105	105	101	103	100	100	100	100	100	98
Reported net income	(1)	198	100	202	178	165	632	40	115	73	60	314	343
Reported EPS	(0)	2	1	2	2	2	6	0	1	1	1	3	4
EBITDA	174	523	187	333	264	204	1066	87	196	113	112	636	669
Sales volumes (million st):													
Ammonia	1.90	1.70	0.36	0.55	0.39	0.37	1.70	0.49	0.52	0.37	0.37	1.96	1.86
Nitrogen solutions	3.89	4.07	0.92	1.10	1.06	0.85	3.90	0.57	1.12	0.67	0.97	3.71	3.71
Methanol (million gallons)	18.57	36.78	8.70	5.89	8.66	4.80	31.00	6.00	7.00	6.00	6.00	35.00	30.00
Average unit price (1):													
Ammonia ($/st)	315	350	462	530	598	623	543	425	400	375	365	410	375
Nitrogen solutions ($/st)	140	227	285	338	349	368	337	290	290	260	250	258	270
Urea ($/st)	262	412	419	417	432	473	481	310	325	300	325	350	340
Ammonium nitrate ($/st)	224	254	304	328	388	321	347	250	275	235	250	280	300
Methanol ($/gallon)	0.97	1.04	1.68	1.26	1.28	0.98	1.22	0.45	0.45	0.45	0.45	1.00	0.50

Source: Company filings and UBS estimates

Global Equity Research

Americas

Chemicals, Commodity

UBS Investment Research

Intrepid Potash Inc

Undervalued Potash Assets

We initiate coverage with a Buy rating and a $27 price target

Intrepid Potash is a highly profitable regional potash producer (1.5% global market share) that utilizes several niche product and distribution strategies to compete with much larger rivals. It is a roll-up of several smaller mines in New Mexico and Utah with effective capacity of 1.0 million short tons of potash and 210,000 short tons of langbeinite, a specialty potash fertilizer.

■ Global oligopoly supporting potash prices

Intrepid greatly benefits from the willingness of large producers to alter output in response to customer demand, a trend we expect to continue. After a long hiatus, we expect buyers in China, India, and Brazil return to market later this year. Cutbacks by producers in Saskatchewan and Former Soviet Union have trimmed inventories and limited potash price declines.

■ Fundamental strengths, technical negatives

Intrepid is the cheapest vehicle to gain exposure to the oligopolistic and historically lucrative North American potash market. The stock trades at an EV/EBITDA multiple of 4.1x our 2009 estimate and boasts a debt-free balance sheet with approximately $1.50 per share in cash. It also can exploit many high-return capital projects at its historically under-managed mines. There are negatives: IPI is small-scale, it lacks product or market diversity, it pays no dividend and its share price has fallen well below the April 2008 IPO price of $32, a technical negative.

■ Valuation cheap on virtually every valuation measure

Our $27 price target is based on a mid-cycle 6.0x EV/EBITDA multiple of our 2009 estimate. Our sum-of-parts valuation analysis utilized multiples of 8x EBITDA for their potash and langbeinite units. Our target price remains well below its 52-week high of $76. Primary risks include either a prolonged decline in fertilizer demand or major new capacity additions from non-Canpotex sources.

Highlights (US$m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	192.34	391.95	547.23	586.98	675.52
EBIT (UBS)	27.90	200.71	319.17	360.40	440.87
Net Income (UBS)	17.62	120.45	196.24	225.34	276.05
EPS (UBS, US$)	0.24	1.61	2.62	3.00	3.72
Net DPS (UBS, US$)	0.00	0.00	0.00	0.00	0.00

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	-	51.2	58.3	61.4	65.3
ROIC (EBIT) %	-	65.9	56.8	60.3	75.4
EV/EBITDA (core) x	-	13.3	3.8	2.7	1.2
PE (UBS) x	-	23.7	7.4	6.4	5.2
Net dividend yield %	-	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$19.31 on 25 Mar 2009 19:40 EDT

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12-month rating	Buy *Prior: Not Rated*
12m price target	US$27.00 -
Price	US$19.31

RIC: IPI.N BBG: IPI US

Trading data	
52-wk range	US$73.23-14.34
Market cap.	US$1.45bn
Shares o/s	74.8m (COM)
Free float	55%
Avg. daily volume ('000)	310
Avg. daily value (US$m)	6.2

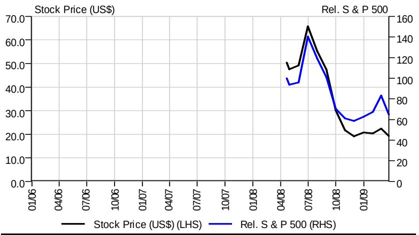
Balance sheet data 12/09E	
Shareholders' equity	US$0.84bn
P/BV (UBS)	1.7x
Net Cash (debt)	US$0.22bn

Forecast returns	
Forecast price appreciation	+39.8%
Forecast dividend yield	0.0%
Forecast stock return	+39.8%
Market return assumption	6.0%
Forecast excess return	+33.8%

EPS (UBS, US$)

	12/09E			12/08
	From	To	Cons.	Actual
Q1E	-	0.61	0.29	0.21
Q2E	-	0.69	0.52	0.43
Q3E	-	0.66	0.67	0.66
Q4E	-	0.66	0.65	0.30
12/09E	-	2.62	*2.17*	
12/10E	-	3.00	*2.92*	

Performance (US$)



Source: UBS

Intrepid Potash

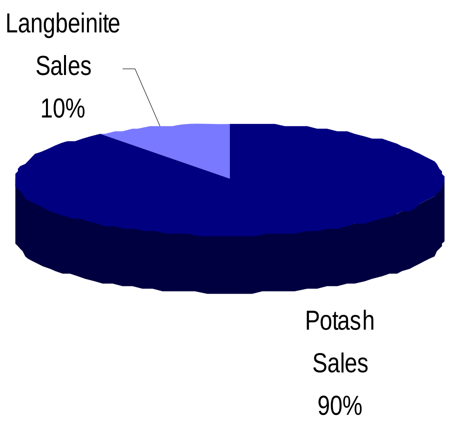
Company Overview

Small cap Regional

Intrepid is the only pure-play among North American potash producers. The company operates four small potash mines (2 in Utah and 2 in New Mexico), with effective capacity of approximately 1.0 million short tons of potash and 210,000 short tons of langbeinite, a specialty potash fertilizer containing potassium, sulphate and magnesium. The company came public via an Initial Public Offering on April 21, 2008, selling 34.5 million shares at a price of $32.00 per share.

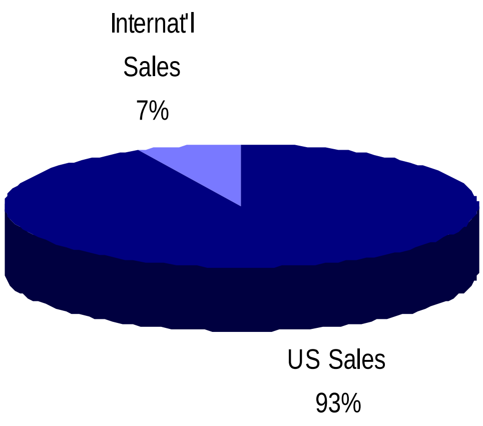
IPI's scatter of small-scale mines typically incurs higher per-ton mining costs than its larger Saskatchewan peers. However, IPI possesses two clear advantages versus Canadian miners. (1) IPI's regional positioning provides a freight advantage for delivery of potash into the US Cornbelt, particularly the southern Cornbelt. (2) IPI's US mines incur much lower royalty expenses (approximately 3%-5% of revenues versus ~13%-18% for Canpotex producers). Targeted marketing is a further plus: approximately one-third of Intrepid's potash sales in 2008 were to oil and gas drillers where it serves as a key additive in drilling fluids. Intrepid can deliver potash to rigs between Texas and Colorado on a just-in-time delivery basis. Potash for the oil and gas industry is sold at prices at parity with those for agricultural markets. Demand for langbeinite continues to expand for high-value, chloride-sensitive crops such as tobacco, fruits and vegetables, tree nuts, and turf, with half exported to China.

Chart 98: Intrepid Potash: Product mix is mostly potash
(% of 2008 Net Sales by Product)



Source: Company reports.

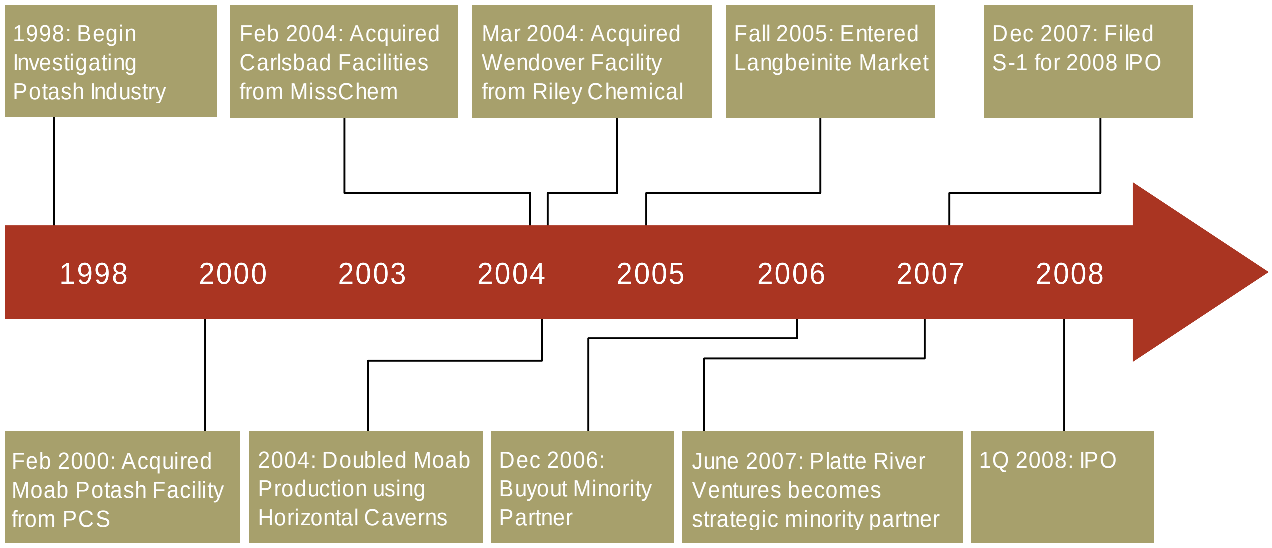
Chart 99:Intrepid Potash: End-Markets Concentrated in the US
(% of 2008 Net Sales of $392.2 million)



Source: Company reports.

Intrepid has significant opportunities to pursue high-return debottlenecking and efficiency projects. Intrepid purchased all its mines between 2000 and 2004 (see chart below), which at the time were either in bankruptcy or the neglected operations of larger organizations. In general, we consider these facilities to have received little discretionary capital spending for at least a decade prior to being acquired. The substantial improvement in global potash fundamentals provides Intrepid with significant opportunities to incrementally increase production volumes and reduce unit costs, as outlined in the Table below.

Chart 100: Intrepid Potash: Timeline of Key Events.


1998: Begin Investigating Potash Industry
Feb 2004: Acquired Carlsbad Facilities from MissChem
Mar 2004: Acquired Wendover Facility from Riley Chemical
Fall 2005: Entered Langbeinite Market
Dec 2007: Filed S-1 for 2008 IPO
1998
2000
2003
2004
2005
2006
2007
2008
Feb 2000: Acquired Moab Potash Facility from PCS
2004: Doubled Moab Production using Horizontal Caverns
Dec 2006: Buyout Minority Partner
June 2007: Platte River Ventures becomes strategic minority partner
1Q 2008: IPO

Source: Company reports.

Table 22: Intrepid Potash: Debottlenecking and Expansion Projects at Existing Facilities

	Facility	Estimated Capital Cost ($MMs)	Theoretical Additional Product Tons (000 st)	Capital Cost / Product Ton Range (Low - High) ($ / st)		Estimated Completion Date
Potash						
Storage and Hoisting Capacity Upgrade	West	$11 - $12	52	$212	$231	Q3 2009
Columnar Flotation	West	$2.5 - $3.0	9	$278	$333	Q1 2009
Thickener Upgrade	East	$6.0 - $7.0	15	$400	$467	Q1 2009
Additional Caverns Moab Q4 2008	Moab	$5.0 - $6.0	10	$500	$600	Q2 2009
HB Solution Mine (re-start of idle mine)	HB	$78.0 - $88.0	175	$446	$503	2012-13
Langbeinite						
Langbeinite Recovery Flotation Project	East	$10 - $15	80	$125	$188	Q1 2010

Source: Company reports and UBS Securities estimates.

Valuation

We initiate coverage of Intrepid with a Buy rating and a $27 price target. Intrepid is the cheapest vehicle to gain exposure to the oligopolistic and historically lucrative North American potash market. The stock trades at an EV/EBITDA multiple of under 4.0x our 2009 estimate and 3.2x our 2010 estimate. We project it will generate free cash flow equal to 7% of its share price in 2009, despite substantial discretionary capital spending that year. It boasts a debt-free balance sheet with approximately $1.50 per share in cash at December 31, 2008.

Our $27 price target for Intrepid is based on an EV/EBITDA multiple of 6.0x our 2009 EBITDA estimate. This is also supported by our sum-of-parts valuation analysis, where we used a multiple of 8x EV/EBITDA for both their potash and langbeinite business units. We consider these to represent mid-cycle multiples relative to historical ranges.

Our price target remains well below its 52-week high of $76 and its IPO price of $32. Primary risks include either a prolonged decline in domestic fertilizer demand or substantial new potash capacity additions by non-Canpotex producers. Our VCAM analysis supports a one year price target of $27, using a WACC of 8% and a terminal growth rate of 3.6%.

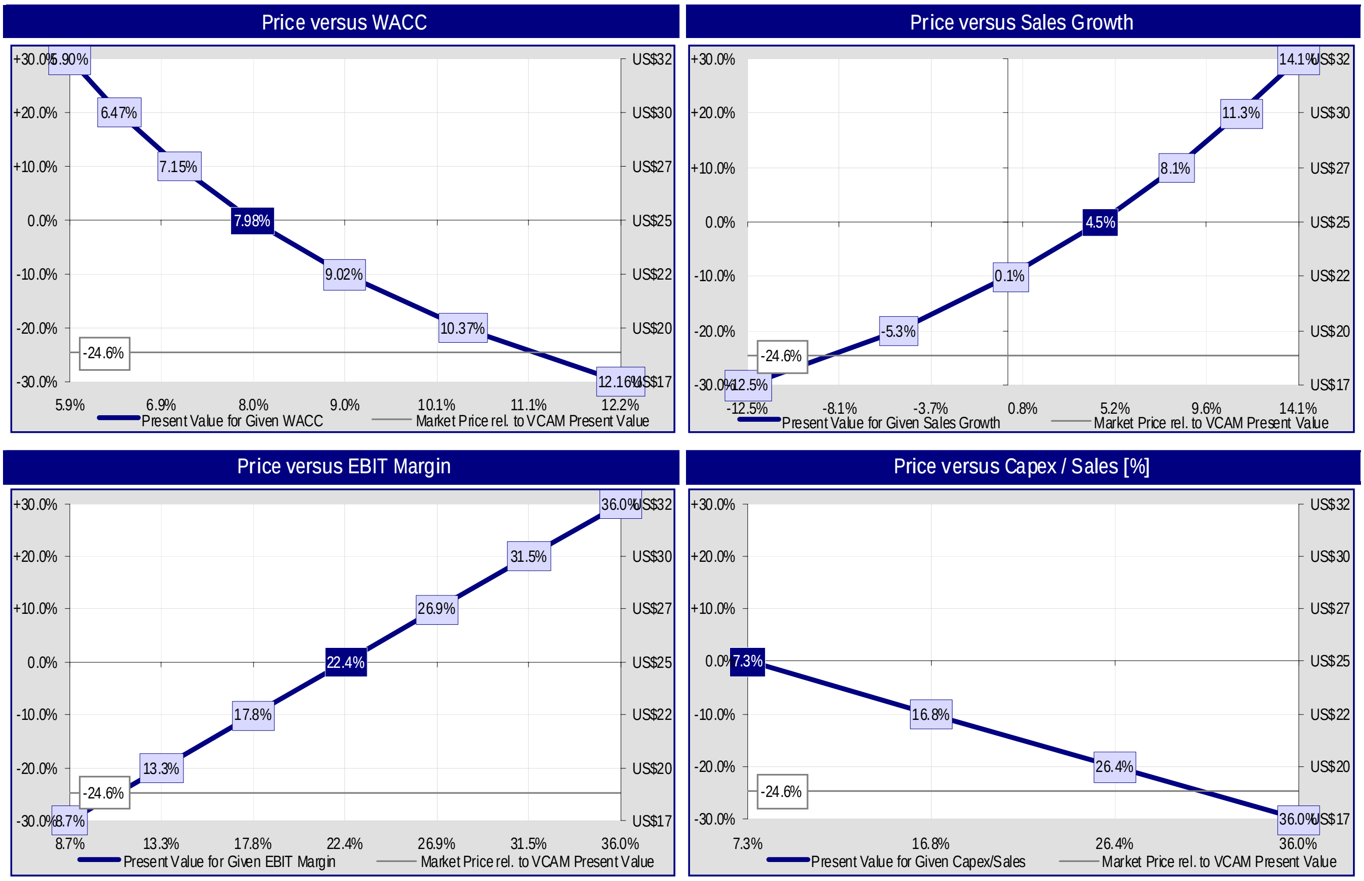
Table 23:Intrepid Potash: EPS Sensitivities to Major Products (per $100 per short ton change)

Product	EPS Sensitivity *
Potash	$0.83
Langbeinite	$0.17

Source: Company reports and UBS Securities estimates. EPS sensitivities are for $100/short ton change and assume production at effective capacity, a 5% royalty rate, and a 38% income tax accrual rate

Sensitivity analysis: VCAM

Chart 101: UBS VCAM Sensitivities for Intrepid Potash [IPI.N]



Notes: Sensitivities are derived from assuming Sales Growth, EBIT Margin, or Capex / Sales is flat annually for years 4 through the VCH.
Explicit estimates in years 1 through 5 do not vary, and always represent the assumptions on the Inputs Page.
For each chart, one parameter is varied while the others are held constant. Those held constant are set as they appear on the Inputs Page.

Source: UBS VCAM

Our Valuation and Price Target assumptions are also conservative, in our view. Each 1.0x multiple point change in IPI's EV/EBITDA multiple equates to a share price change of $4.45, or approximately 24% of the current share price. A $100/mt change in average annual potash margins would boost EBITDA by approximately $75-$80 million and translate into a share price increase of approximately $4 (21%) based upon its current EV/EBITDA trading multiple of 3.9x our 2009 estimates.

Normalized earnings are likely understated: the company possesses a lengthy string of high-return capital projects at its historically under-managed mines, (See Table 19 for a listing of near-term opportunities). We believe it will exploit these opportunities over the next several years over time.

There are negatives to consider: IPI is a decidedly small-scale producer lacking product or market diversity, it pays no dividend and has a limited history as a public company. Its share price has fallen well below the April 2008 IPO price of $32, a technical negative.

The key risk to Intrepid's stock price would be a prolonged significant pull-back in global grain prices. This type of market environment could lead to lower fertilizer demand from more cost-conscious customers, pressuring potash prices significantly lower and dimming long-term growth and earnings prospects.

Intrepid can execute its development programs effectively under the Canpotex umbrella. Intrepid is significantly smaller than its two large Canadian competitors Potash Corp, and Mosaic, who each have close to 15% of global potash capacity versus less than 2% for Intrepid. Thus, while Intrepid's proposed debottlnecking program can create significant value for the company, we consider it to be modest overall from a global perspective. We believe it can pursue its multi-year programs as aggressively as its capital and project management capabilities will allow, with little fear of saturating local markets or competitive retaliation. Should domestic markets come into temporary oversupply, we believe it will remain in Canpotex members interests to continue to act as global swing suppliers.

We see rather minor operating risks for Intrepid. The potash mines in the Southwest have been in operation for 80 years and there has never been a catastrophic flood, as has occurred in Canada and the FSU, because Intrepid has only brine-saturated aquifers above its potash deposits rather than the fresh water aquifers above the Canadian and FSU potash mines. Like many potash formations, there are oil and gas accumulations below the potash, creating a risk for a methane gas leak, particularly from nearby oil and gas wells. We believe this is a low risk for Intrepid, as the potash production area in New Mexico has federal statutory protection.

Grassroots development of new potash mines in New Mexico or Utah would not be economically justifiable, in our view. The potash deposits in the Southwestern United States are less desirable than those in Saskatchewan, as they are generally 5-6 feet thick versus 20 ft or more in Saskatchewan. The potash content in the ore is also in the 10-15% range versus 20-25% in Saskatchewan (see table below). Thus, while incremental expansions or re-starts of existing capacity carry the potential of high returns to the company, extensive new capital commitments to regional greenfield projects would carry high risks for the company and investors.

Table 24: Potash: Comparison of Key Characteristics of Potash Deposits for North American Producers

	Intrepid	Potash Corp	Mosaic	Agrium
2008 Potash capacity (M mt)	1	11.4	10.1	2.1
2008 Langbeinite capacity (M mt)	0.2		0.9	
Capacity expansion % by 2012	25%	35%(1)	30%(1)	10%
K2O content of ore	10-15%	20-25%	20-25%	20-25%
Typical Potash deposit thickness (Feet)	5-8	20	20	20

Source: Company reports and UBS Securities estimates.

We estimate that Intrepid will generate $400 million in cash flow from operations in 2009; with a free cash flow yield of 7%. For the next couple years, we expect Intrepid to reinvest this cash in numerous debottlenecking projects.

Earnings Outlook

We initiate coverage of Intrepid Potash with EPS estimates of $2.62 for 2009 and $3.00 for 2010, compared with pro forma EPS of $1.61 in 2008 and $0.24 in 2007. We estimate that Intrepid will generate $334 million in EBITDA in 2008, up from $212 million in 2008 and $36 million in 2007.

Our 2009 earnings forecast assumes average annual potash selling prices rise to $657 per short ton in 2009 and $660 per short ton in 2010 versus an average realized price of $486 per short ton in 2008 and $194 per short ton in 2007.

Higher Prices, Lower Shipments. Benefits of higher average selling prices are moderated by expected pressure on shipment volumes: We do not forecast that Intrepid's potash shipments will exceed 2007 levels until 2012. Intrepid's EPS and EBITDA are highly sensitive to changes in selling prices. We estimate that a $100/st change in average potash selling prices would affect 2009 EBITDA by approximately $71 million and EPS by approximately $0.59.

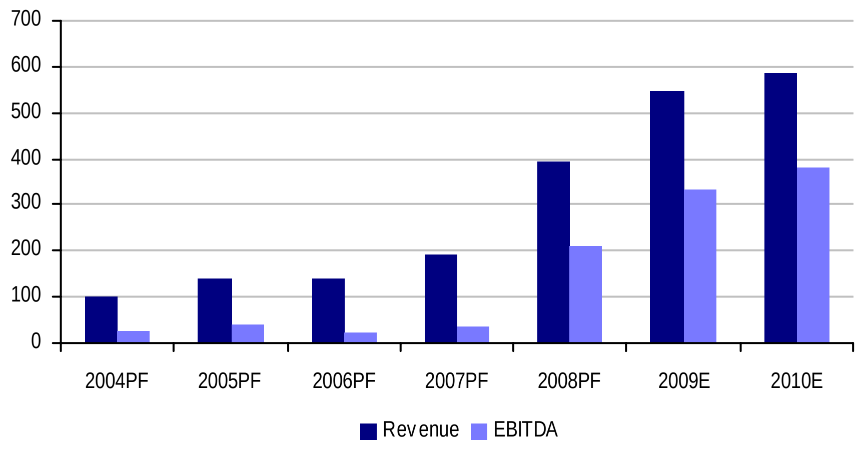
Table 25:Intrepid Potash: EPS Sensitivities to Major Products (per $100 per short ton change)

Product	EPS Sensitivity *
Potash	$0.83
Langbeinite	$0.17

Source: Company reports and UBS Securities estimates. EPS sensitivities are for $100/short ton change and assume production at effective capacity, a 5% royalty rate, and a 38% income tax accrual rate

Chart 102: Intrepid Potash: Net Revenues and EBITDA 2004P-2010E

($millions)



Source: Company reports and UBS estimates. Totals for 2004 through 2008 are pro forma for the April 2008 IPO.

We consider Intrepid to have good control over its total operating costs, due to modest exposure to raw materials and other variable costs. We also expect the company to steadily improve efficiency at the mines as significant discretionary capital is put to work at several of its older mines for the first time in many years.

A prolonged downturn in oil and natural gas prices would differentially affect Intrepid's markets for potash-based drilling additives negatively. However, futures markets point to a rebound in oil and gas values to historically high levels. If so, then we expect the recent sharp downturn in energy-sector demand to be temporary.

Table 26: Intrepid: Key Operating Data 2006-2013E

	2006PF	2007PF	2008PF	2009E	2010E	2011E	2012E	2013E
Shipment Volumes (mm short tons)								
Potash	0.729	0.893	0.724	0.740	0.796	0.855	0.898	0.925
Langbeinite	0.095	0.158	0.207	0.200	0.210	0.221	0.227	0.234
Total Shipments	0.824	1.052	0.931	0.940	1.006	1.076	1.125	1.159

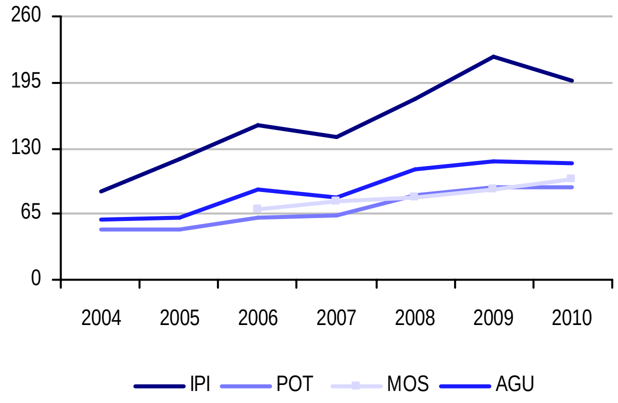
Average Realized Prices ($/short ton)	2006PF	2007PF	2008PF	2009E	2010E	2011E	2012E	2013E
Potash	$178	$194	$486	$657	$660	$710	$675	$600
Langbeinite	106	119	193	305	295	310	300	275
Company EBITDA	$23	$36	$212	$334	$382	$470	$466	$407

Source: Company reports and UBS estimates.

Intrepid will be at cost parity versus its Canadian competitors in 2009. The assets Intrepid acquired in the Southwest were long viewed as high-cost marginal operations, owing to thinner, undulating, and less expansive potash deposits with lower potash content. In 2006, Intrepid's unit costs excluding royalty fees were over $150/mt, roughly twice the level of the Saskatchewan producers (see Chart 79). We illustrate Intrepid's royalty fee advantage in Chart 88, which has been relatively modest through 2007, but is set to widen substantially over our forecast horizon. Royalty fees on Saskatchewan-based production are calculated via complex formula based on gross profit and other factors, versus a relatively straightforward revenue-based fee for Intrepid. Thus, we estimate Intrepid's total unit costs with royalty fees will be at parity with its Canadian peers by 2009 (see Chart 92-94).

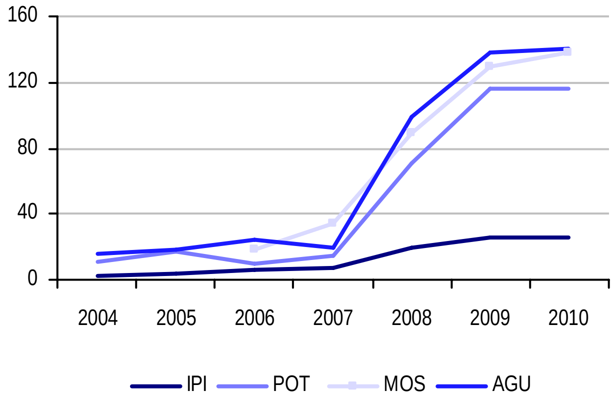
We estimate Canadian potash producers will pay approximately $110/mt in royalty fees in 2009 versus approximately $23/mt for Intrepid.

Chart 103: North American Potash: Comparison of Unit Operating Costs By Producer Excluding Royalties ($ per metric ton)



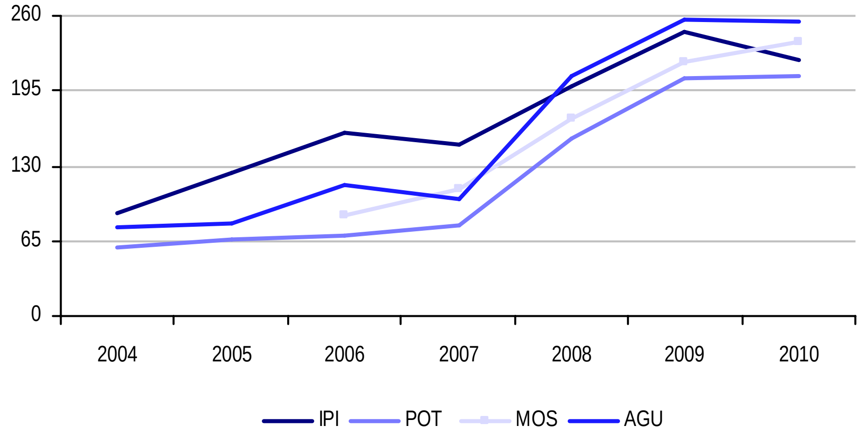
Source: Company reports and UBS estimates.

Chart 104: North American Potash: Comparison of Unit Royalty Fees by Producer ($ per metric ton)



Source: Company reports and UBS estimates.

Chart 105: North American Potash: Comparison of Total Unit Operating Costs by Producer ($ per metric ton)

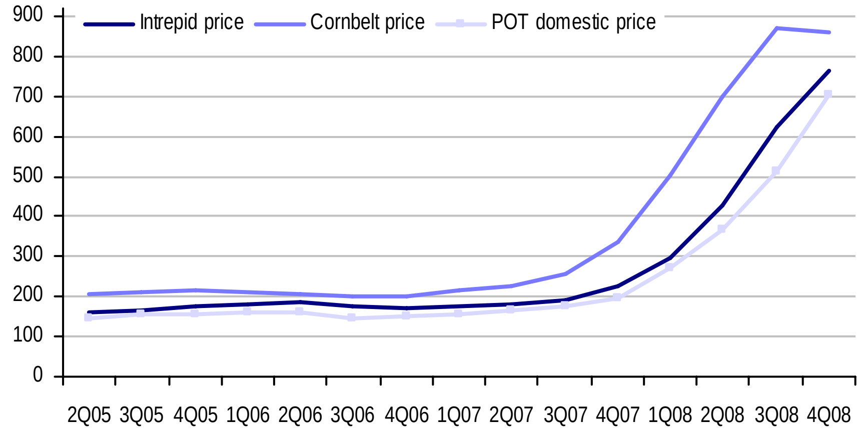


Source: Company reports and UBS estimates.

Longer term, Intrepid's unit costs could steadily decline as its incremental capacity expansions boost overall efficiency. The company's HB mine, currently idle, will be a solution mine with solar evaporation ponds similar to the low-cost operation in Moab, Utah. Unit costs could be even lower than those at Moab, due to greater scale and the ability to process the potash crystals at the nearby West Carlsbad facility, which has excess milling capacity. Longer-term, Intrepid could exploit its rights to re-start the idle North Mine in Carlsbad. It is located adjacent to the East Carlsbad mine and has fully operational shafts. We believe this mine re-start could indeed be completed in the next several years, representing potential upside to our production estimates.

We could see upside to our estimates due to higher potash prices. The slowdown in domestic and global potash demand that began in the fall means the gap between published prices and Intrepid's actual realized prices has begun to narrow. The mid-March spot price for potash in the Cornbelt is near $700/st. This compares to Intrepid's reported average selling price in 4Q:08 of $762/st, PotashCorp's reported average selling price in 4Q:08 of 672/st ($740/mt) and the spot Cornbelt price in 4Q:08 of $840/st. We believe that much of Intrepid's realized price advantage versus PotashCorp reflects IPI's freight cost advantage to mid-west markets.

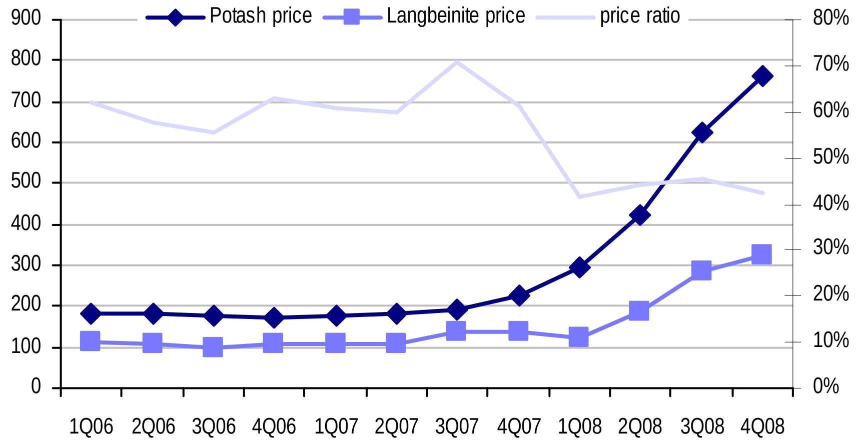
Chart 106: Intrepid Potash: Potash prices on the rise
(in $ per short ton)



Source: Company reports and UBS Securities estimates.

Langbeinite trading at a wider discount to potash. For several years prior to 2008, the price of langbeinite has been roughly 60% of the price of potash, even though the potassium content in langbeinite is only 22% (100% K2O basis) versus 60% in commodity potash. This price premium for langbeinite per unit of potassium was warranted based on the increased value for crops sensitive to chloride (contained in potash (KCl or potassium chloride) but not in langbeinite (potassium-magnesium-sulfate, or K-M-S). However, during 2008 this price ratio declined to between 40%-45%, as the potassium content in both products has become more highly valued. We have assumed that this new price relationship will persist, and langbeinite prices will remain at roughly 40% of potash prices (see chart below).

Chart 107: Intrepid Potash: Price Comparison for Potash vs Langbeinite



Source: Company reports and UBS Securities estimates.

UBS Investment Research

CF Industries Holdings, Inc.

Global Equity Research

Americas

Chemicals, Commodity

12-month rating	Neutral *Prior: Not Rated*
12m price target	US$72.00 -
Price	US$73.22

RIC: CF.N BBG: CF US

To Acquire or Be Acquired?

- **We initiate coverage of CF Industries with a Neutral rating**

CF Industries is one of the world's larger producers of nitrogen and phosphate fertilizers. CF benefits from uniformly large-scale facilities and an extensive distribution infrastructure that affords logistical advantages in serving its prime Cornbelt markets. Prior to its 2005 IPO, CF was the fertilizer production arm of one of the largest farm co-ops in the US.

- **North American Nitrogen: consolidation ahead**

We suspect the three-way battle for control among Agrium, CF, and Terra will see Terra remain independent and Agrium and CF combine. If so, then TRA shares could decline as any takeover premium is eliminated. We think the sharp year-to-date appreciation in CF stock has eliminated its fundamental undervaluation

- **Softer demand environment poses near-term challenges**

We expect CF to enjoy a busy and profitable spring, with lower feedstock natural gas costs an unexpected windfall. However, forecasted pricing and cash margins will fall well short of 2008's record levels. Post-spring, we are concerned that new nitrogen supply plus soft industrial demand could lead to excess availability and downward price pressures. By comparison, we believe producer discipline sets the stage for steady to higher phosphate margins.

- **Valuation**

Our $72 price target is based upon the stated value of Agrium's initial (and current) bid for CF, which could change as the sides jockey for advantage. This compares with a $63 valuation based upon our sum-of-parts valuation analysis, utilizing multiples of 4.5x and 6.0x EBITDA for their nitrogen and phosphate businesses, respectively. Primary risks include the withdrawal of the Agrium offer. Secondary risks include either a prolonged decline in global fertilizer demand or accelerated pace of new nitrogen capacity additions.

Highlights (US$m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	2,758.00	3,921.10	2,511.77	2,551.51	2,703.86
EBIT (UBS)	601.59	1,150.18	553.34	599.39	678.05
Net Income (UBS)	372.72	684.58	326.59	372.33	426.34
EPS (UBS, US$)	6.57	12.15	6.65	7.51	8.51
Net DPS (UBS, US$)	0.08	0.40	0.40	0.40	0.40

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	-	29.3	22.0	23.5	25.1
ROIC (EBIT) %	-	301.4	112.1	91.0	71.9
EV/EBITDA (core) x	-	4.2	4.8	4.2	3.7
PE (UBS) x	-	9.1	11.0	9.8	8.6
Net dividend yield %	-	0.4	0.5	0.5	0.5

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$73.22 on 25 Mar 2009 19:40 EDT

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Trading data	
52-wk range	US$169.62-39.38
Market cap.	US$4.16bn
Shares o/s	56.9m (COM)
Free float	95%
Avg. daily volume ('000)	1,399
Avg. daily value (US$m)	77.9

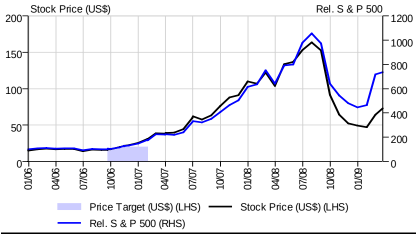
Balance sheet data 12/09E	
Shareholders' equity	US$1.65bn
P/BV (UBS)	2.2x
Net Cash (debt)	US$0.94bn

Forecast returns	
Forecast price appreciation	-1.7%
Forecast dividend yield	0.5%
Forecast stock return	-1.2%
Market return assumption	6.0%
Forecast excess return	-7.2%

EPS (UBS, US$)

	12/09E			12/08
	From	To	Cons.	Actual
Q1E	-	0.38	0.78	2.77
Q2E	-	3.21	2.42	5.02
Q3E	-	1.25	1.80	0.82
Q4E	-	1.82	2.37	3.59
12/09E	-	6.65	*7.78*	
12/10E	-	7.51	*7.02*	

Performance (US$)



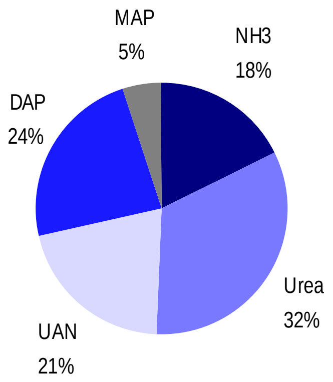
Source: UBS

* Exception to core rating bands; See page99

Company Overview

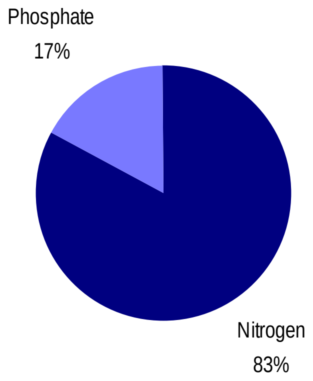
CF Industries is a North American producer of nitrogen and phosphate fertilizers, with nitrogen production facilities in Louisiana and Alberta and a phosphate production facility in Florida. CF's primary operating advantage is its extensive network of distribution facilities throughout the US Cornbelt, most of which are located with access to navigable rivers or to the Valero ammonia pipeline.

Chart 108: CF's 2009E revenue by product



Source: Company reports and UBS estimates

Chart 109: CF's 2009E gross profit by product



Source: Company reports and UBS estimates

M&A Overview CF, Terra, and Agrium

In January 2009, CF Industries announced a bid to acquire Terra Industries. As of March 24, 2009 CF proposes to exchange CF stock valued at a maximum of $30.50 per share for each share of Terra common stock, subject to an exchange ratio of not less than 0.4129 share of CF common and not more than 0.4539 share of CF common stock. We calculate that at a CF share price of $67.195 or below, the value of the offer to a TRA shareholder would be less than $30.50 per share. (i.e., $30.50 per TRA share / 0.4539 CF share) or below)

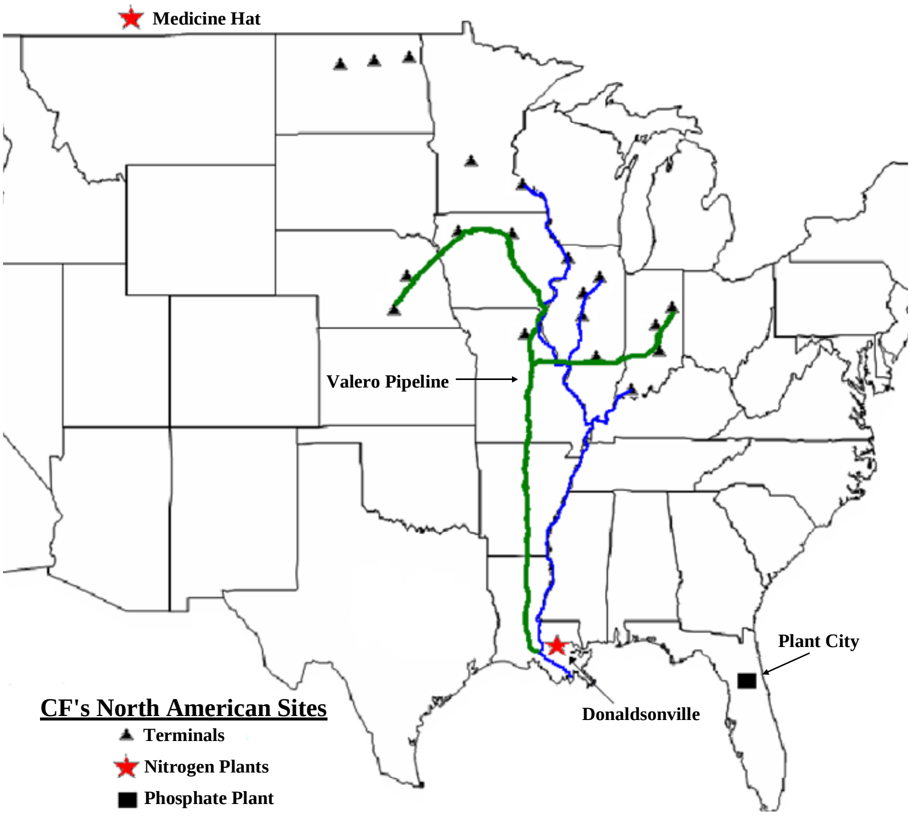
On February 25, 2009 Agrium offered to acquire CF Industries for a cash and stock package initially valued at $72.00 per share consisting of (1) $31.70 per share in cash and one share of AGU common stock. One condition of Agrium's bid was that CF drop its bid to acquire Terra. CF rejected this proposal on March 9, 2009.

This issue appears far from over. Firm conclusions are hard to draw, though our current view is that Terra is likely to remain independent as CF and AGU combine. Should these events occur, CF's share price will depend more on the composition of AGU's latest offer, the value of AGU stock, and other deal-related factors, rther than a strict assessment of fundamental value. TRA share price could suffer as some holders liquidate at the prospects of realizing no takeover premium from holding the stock.

Please refer to the section titled "M&A Overview" in this report for further details regarding key events related to these offers and our key conclusions.

Roughly 80% of CF's nitrogen shipments are urea and urea-ammonium-nitrate solutions (UAN), both derived from ammonia and with significantly higher gross margins than ammonia. All three forms of nitrogen fertilizer are commonly used in North America, with grower selection depending on agronomic factors, soil moisture conditions, and soil type.

Chart 110: CF's distribution terminal locations provide an operating advantage



Source: Company reports

CF has a fully integrated phosphate fertilizer production operation in central Florida, consisting of a phosphate rock mine in Hardee county and a phosphoric acid plant and a granulation plant (to produce di- and mono-ammonium phosphate -DAP/MAP) in Plant City, Florida. CF has permits to operate its phosphate rock mine until 2022, with reserves to support current mining rates until 2031. Sulphur and ammonia are large-volume raw materials required to produce DAP and MAP, and are received at CF's terminal in Tampa. The Plant City granulation plant has the capacity to produce 2.0 million st of DAP and MAP, representing 12% of US capacity.

CF's Donaldsonville facility is the largest nitrogen production site in the US. It benefits from a high level of downstream production flexibility as well as flexible distribution options.

The company regularly toggles between nitrogen production and imports, depending on the relative margins.

More than half of the ammonia produced at the Donaldsonville facility is shipped to the Cornbelt via the Valero pipeline.

Valuation

Our $72 price objective is based upon the stated value of Agrium's initial (and current) bid for CF, which could change as the sides jockey for advantage. While consider it more likely that Agrium will raise its bid than withdraw, we believe CF's stock would have a sharp negative reaction if Agrium were to withdraw its bid. CF's share price closed at $47.23 the day before it launched its initial bid for Terra on January 15, versus a closing price of $72.30 on March 24.

Chart 111: CF Industries: EPS Sensitivities for Major Products and Raw Materials

Chemical	Plant Location	2009E Year-End Capacity (000 short tons)		EPS. Sensitivity *
Ammonia	Donaldsonville, Louisiana	2,280		
	Medicine Hat, Alberta	825	**	$0.38
Granular Urea	Donaldsonville, Louisiana	1,730		
	Medicine Hat, Alberta	535	**	$0.27
UAN	Donaldsonville, LA	2,710		$0.33
Phosphate Rock	Hardee County, Florida	3,500		
Sulfuric Acid	Plant City, Florida	2,640		
Phosphoric Acid	Plant City, Florida	1,000		
DAP/MAP	Plant City, Florida	2,040		$0.25

** Medicine Hat capacities reflect CF's 64% equity stake in WestFarmers joint venture.

Feedstock	Change	Unit	Maximum Annual Usage		EPS Sensitivity *
Natrual Gas	$1	mmbtu	130	mm mmBTU	$1.58
Sulphur	10	long ton	775	000 long tons	$0.09
Ammonia	10	short ton	428	000 short tons	$0.05

* EPS sensitivity to $10/mt change for ammonia, urea, UAN, and DAP/MAP. Urea and UAN margin change is versus purchased ammonia

Source: Company reports and UBS Securities estimates. EPS sensitivities assume 50.3 million diluted shares and a 39% tax accrual rate

This valuation compares with a $63 valuation based upon our sum-of-parts valuation analysis, utilizing multiples of 4.5x and 6.0x EBITDA for its nitrogen and phosphate businesses, respectively, representing mid-cycle multiples relative to historical ranges. Primary risks include the withdrawal of the Agrium offer. Secondary risks include either a prolonged decline in global fertilizer demand or accelerated pace of new nitrogen capacity additions. Additional fundamental risks include higher North American natural gas prices of adverse legislation that reduced mandated ethanol consumption.

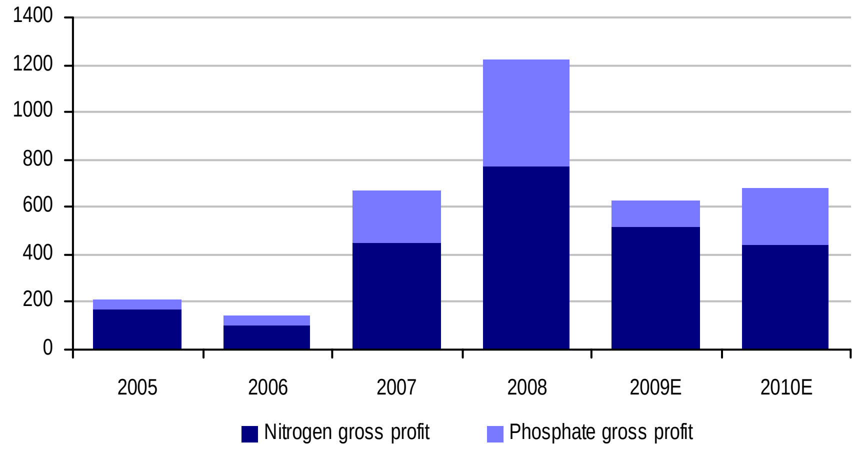
Earnings Estimates

Our EPS estimates for CF are $6.65 in 2009 and $7.50 in 2010, versus a record $12.15 in 2008 and $6.57 in 2007. We forecast CF will generate EBITDA of $581 million in 2009 and $701 million in 2010, versus a record $1.134 billion in 2008 and $687 million in 2007.

Post-spring, we believe nitrogen fertilizer demand and selling prices could ease due to seasonally slow agricultural demand plus pressures on industrial use from the sluggish world economy. Beginning in the fall, we judge that healthy grain prices and lower fertilizer and fuel costs (versus the prior year) will strengthen corn cash returns per acre and build optimism for 2010 plantings. A significant increase in US corn plantings likely will be needed in 2010 to rebuild low ending inventories and provide for mandated increases in domestic ethanol consumption, which is very positive for nitrogen demand.

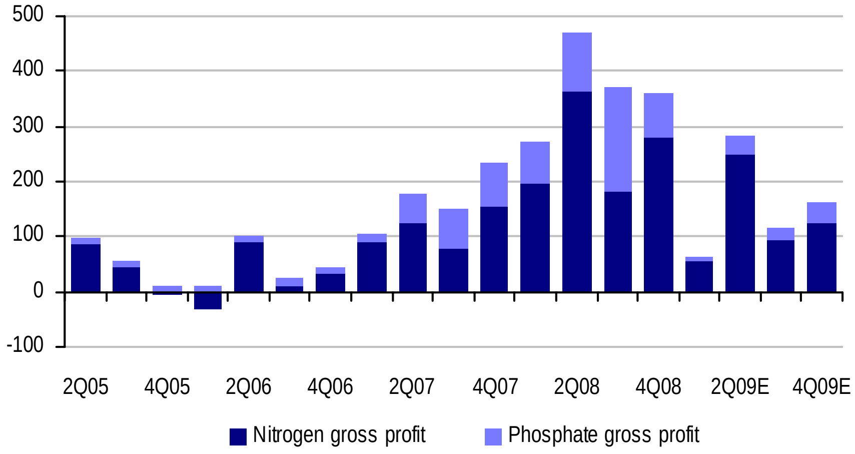
CF's phosphate business has accounted for approximately one-third of gross profit in recent years, but this is set to recede this year. In 2009, we estimate that phosphate will account for 17% of gross profit (see chart below), driven by the recent rapid decline in DAP prices.

Chart 112: CF Industries: Annual Gross Profit by Segment 2005-2010E
(millions of dollars)



Source: Company reports and UBS Securities estimates.

Chart 113: CF Industries: Quarterly Gross Profit by Segment 2005-2010E
(millions of dollars)



Source: Company reports and UBS Securities estimates.

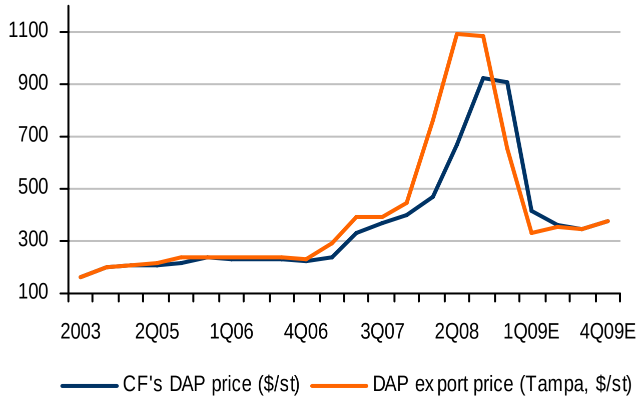
We estimate that CF will generate $520 million in cash flow from operations in 2009 (ex-working capital), with a free cash flow yield approaching 8%.

We expect the company to accumulate cash as it evaluates several large-scale growth opportunities, such as a nitrogen plant in Peru or a gasification project in Donaldsonville.

Phosphate Margins to Stabilize in Coming Months

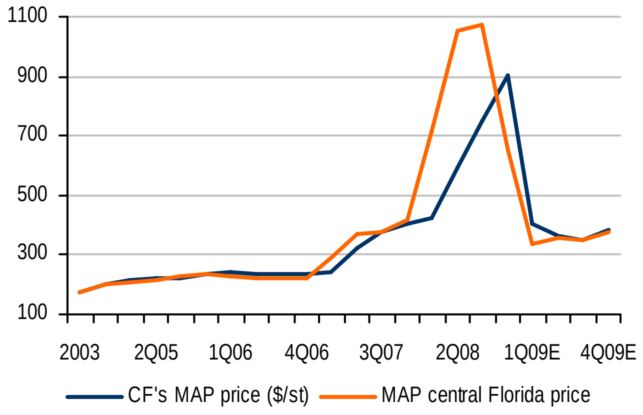
We look for DAP prices and margins to stabilize in coming months and strengthen in F2010 a significant near-term improvement in Mosaic's phosphate operating margins. The benchmark Tampa DAP price plummeted from an all-time record high of $1.200 per metric ton in September 2008 to a low of $335 per metric ton before rebounding to near $375 per metric ton. Soaring demand led to its unprecedented price spike upward in 2008, and a buyer's strike this past fall led to the market collapse. Looking ahead, producer discipline has kept phosphate selling prices at profitable levels, while poor economics for non-integrated producers (i.e., those that lack captive source of phosphate ore) appear likely to support moderate gains through spring.

Chart 114: CF's DAP price versus the Tampa benchmark price
($/st)



Source: Company reports and UBS Securities estimates.

Chart 115: CF's MAP price versus the Tampa benchmark price
($/st)



Source: Company reports and UBS Securities estimates.

For F2010, we believe global demand will return to trendline rates, and allow global utilization rates to rise. We do not expect DAP selling prices and cash margins per ton to approach the mid-2008 highs of $1200/mt and $700/mt, respectively. must purchase feedstock phosphate cannot selling price jumped 100% year to date to $1200/mt, supported by strong demand and by soaring raw material costs for non-integrated producers. Current cash costs for these producers are approximately $1100/mt. We estimate the cash margin on Florida based DAP exports is ~$700/st.

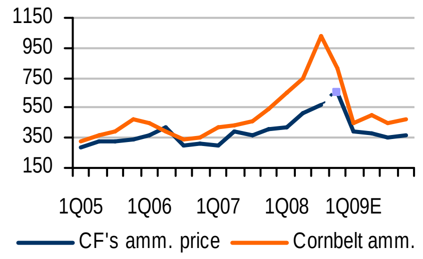
Plummeting raw material costs have significantly mitigated the margin decline in DAP. (see chart below). The spectacular decline in DAP selling prices since last summer have been matched in part by exceptionally sharp declines in costs for raw materials and freight. This has offset a significant portion of the decline in selling prices and allowed benchmark DAP cash margins to remain solidly positive. Quarterly contract costs for feedstock sulfur have declined from $617 per long ton in 3Q:08 to $0.00 (free) in 1Q:09, a change that reduces benchmark cash production costs by approximately $247 per short ton of DAP (based upon 0.40 lt of sulfur per st of DAP). Similarly the decline in Tampa contract ammonia costs from a peak of $931 per metric ton to a recent level of $318/mt represents a cost decline of approximately $124 per short ton of DAP (0.223 st of Ammonia per st DAP).

Longer-term, we remain confident that CF can maintain its long-term cost advantage over non-integrated DAP producers who must purchase phosphate rock from merchant sellers at $140/st or more, versus cash costs to mine captive rock of $41/st or below. All things equal, this could represent a cost advantage for CF of approximately $161 per metric ton (1.7 st of rock per st DAP). We estimate current benchmark cash margins for Tampa DAP at $170-$180/st, based upon recent selling prices of $340/st. As industry operating rates recover to more traditional levels, we believe Mosaic will be able to report sequential improvement in gross profit as reported results begin to track benchmark trends.

Potential Upside to Our Nitrogen Price Estimates

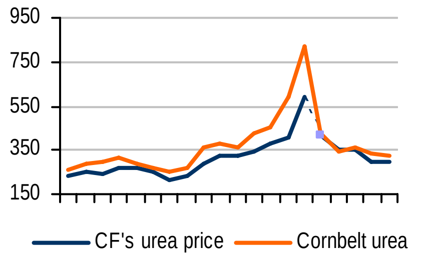
Our 2009 estimates for CF are based on conservative nitrogen price assumptions in our view, as we assume a significant lag between spot and net realized prices due to CF's forward pricing program (see charts below). The company has been more aggressive than its peers and versus year-ago levels in this forward pricing program. While this approach will likely result in net realized prices well below spot prices, we believe the company may also have secured natural gas costs well below current levels.

Chart 116: CF's average realized ammonia price vs. Cornbelt price ($ per short ton)



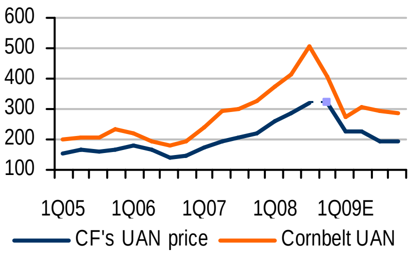
Source: Company reports and UBS Securities estimates.

Chart 117: CF's average realized urea price vs. Cornbelt price ($ per short ton)



Source: Company reports and UBS Securities estimates.

Chart 118: CF's average realized UAN price vs. Cornbelt price ($ per short ton)

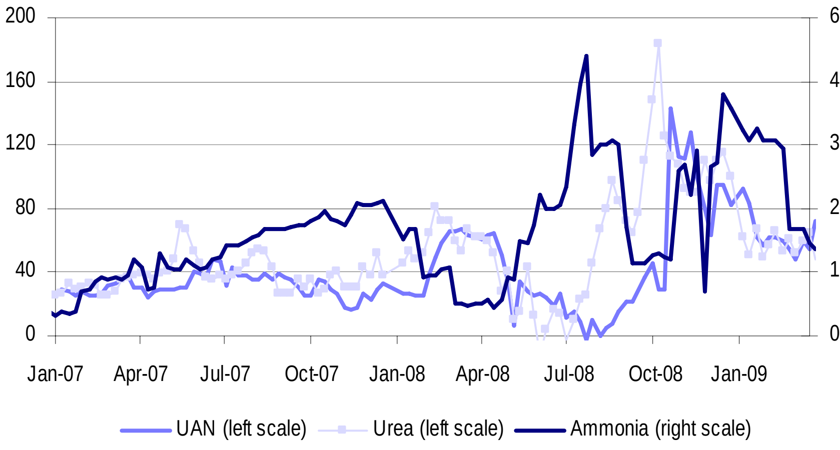


Source: Company reports and UBS Securities estimates.

All nitrogen prices have reacted positively to China's implementation of steep export tariffs. China accounts for 15% of global urea exports, which led to an immediate increase in international urea prices, and eventually boosted prices of other nitrogen products. Higher selling prices have been met with escalating natural gas input gas costs, which have risen ~50% YTD. Despite the rise in natural gas prices, margins remain well above year-ago levels with Cornbelt UAN, urea, and ammonia all up sharply versus year-ago levels (see charts below).

CF's extensive distribution network affords favorable access to serve the strategic western Cornbelt market. CF's main nitrogen production facilities are positioned within easy reach of entire US Cornbelt regions, where profit margins are significantly greater than product sold near the US Gulf. We attribute these wider margins to the freight costs of shipping product into this region, combined with the consolidated nature of the wholesale distribution channel. Only four companies (Koch, CF, Terra, and Agrium) own ammonia terminals along the upper Mississippi River (and tributaries) and on the Valero and Magellan pipelines, which collectively represent the primary transportation modes for imported ammonia to reach the Cornbelt. Being mainly a nitrogen producer, CF's shares move with Cornbelt nitrogen prices, which we look to strengthen over the next 1-2 years, owing to expectations for additional planted corn acreage in 2010 and beyond.

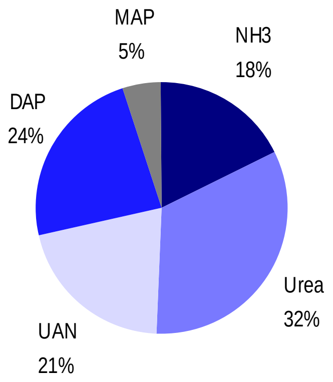
Chart 119: Nitrogen: Coastal-Inland Spreads for Nitrogen Fertilizers
($ per short ton)



Source: Green Markets and UBS Securities estimates.

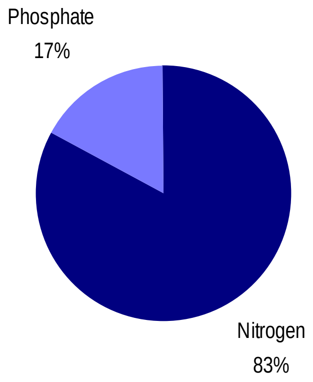
We also believe that profit margins in the Farm Belt have widened versus those in the US Gulf due to high fertilizer price volatility, which discourages speculative imports

Chart 120: CF's 2009E revenue by product



Source: Company reports and UBS estimates

Chart 121: CF's 2009E gross profit by product

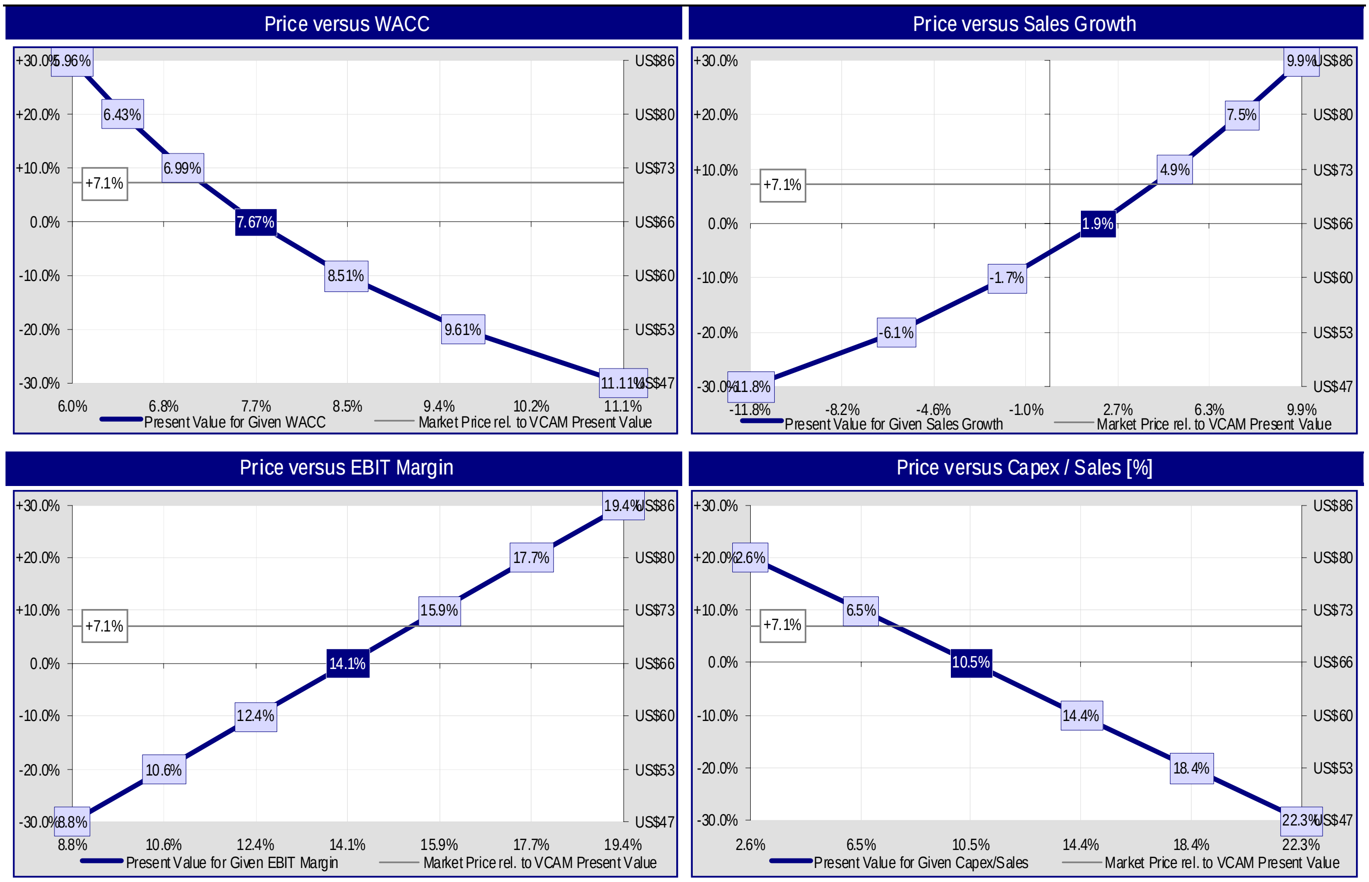


Source: Company reports and UBS estimates

Fully Integrated P Operations

CF has a fully integrated phosphate fertilizer production operation in central Florida. The facilities include a rock phosphate mine located in Hardee county and a phosphoric acid plant and a granulations plant in Plant City, Florida. The Plant City operations produce di-and mono-ammonium phosphate rock. (DAP/MAP). CF has permits to operate its phosphate rock mine until 2022, with reserves to support current mining rates until 2031. Sulphur and ammonia are large-volume raw materials required to produce DAP and MAP, and are received at CF's terminal in Tampa. The Plant City granulation plant has the capacity to produce 2.0 million st of DAP and MAP—this represents 12% of US total capacity.

Chart 122: UBS VCAM Sensitivities for CF Industries [CF.N]

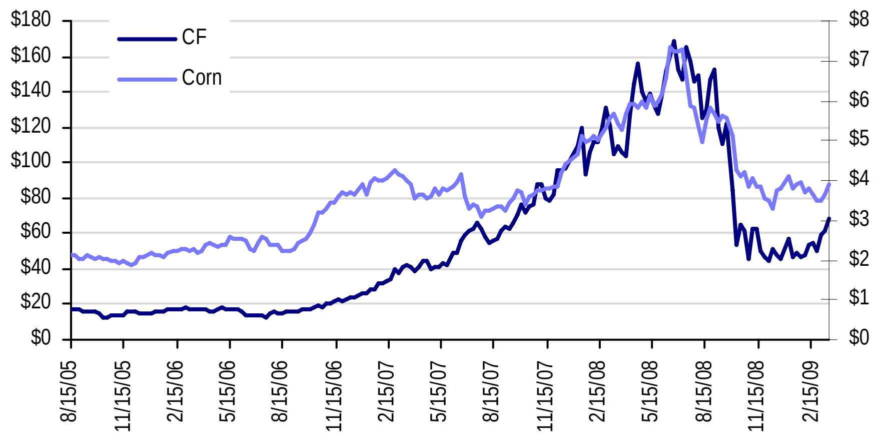


Notes: Sensitivities are derived from assuming Sales Growth, EBIT Margin, or Capex / Sales is flat annually for years 4 through the VCH.
Explicit estimates in years 1 through 5 do not vary, and always represent the assumptions on the Inputs Page.
For each chart, one parameter is varied while the others are held constant. Those held constant are set as they appear on the Inputs Page.

Source: UBS VCAM

Chart 123: CF is highly correlated to corn prices

(CF $/share) (corn $/bu)



Source: FactSet

Stake ownership

Table 27: CF Shareholders

(based on 13-F filings, 12/31/08)

	Holders as of 12/31/08	Position	% of Shares Outstandings
1.	State Street Global Advisors	3,239,344	6.7%
2.	Barclays Global Investors NA (California)	3,215,217	6.6%
3.	TPG-Axon Capital	2,750,000	5.7%
4.	Vanguard Group, Inc.	2,731,690	5.6%
5.	D. E. Shaw & Co., Inc.	1,911,397	3.9%
6.	Greenlight Capital, Inc.	1,812,938	3.7%
7.	Calamos Advisors LLC	1,422,935	2.9%
8.	INTECH Investment Management LLC	987,721	2.0%
9.	AllianceBernstein LP	937,092	1.9%
10.	INVESCO Institutional (N.A.), Inc.	814,901	1.7%

Source: FactSet

UBS Investment Research

Potash Corporation

The Leader in Potash

■ Market focus on 2009 China and India contracts

While potash has the best longer-term fundamental outlook of the three nutrients it has the weakest near-term outlook. In contrast to nitrogen and phosphate potash prices remain well above year-ago levels which has led to near-term demand destruction. Producers have slashed production in order to prevent a further slide in prices. As in 2006 China has dragged out negotiations with Canadian and FSU producers in an attempt to negotiate lower prices. We expect producer discipline to hold with the end result being a roll-over of the contract at the current $575/fob Vancouver price. Industry volumes are likely to be down 20% this year however.

■ Earnings guidance likely to be reduced

We expect Potash to cut its 2009 EPS guidance from the current $10-12. Based on our reduced volume outlook our new 2009 EPS estimate is $8.94. We are also below the low end of the company's $0.70 Q1 guidance with an estimate of $0.63. Our current 2010 and 2011 estimates are $12.06 and $12.77 (previously $11.94 and $13.33).

■ Overlooked value in well-timed equity investments

Early in this decade, POT increased its influence in the global potash industry by acquiring positions in potash producers SQM, Israel Chemical and Arab Potash Company. Potash Corp now owns 20% of Chinese fertilizer distributor, Sinofert. We estimate the market value of POT's equity investments at $19/share.

■ Valuation—price target up from $95 to $105; Buy rating unchanged

We are now using a sum-of-the-parts valuation methodology for North American fertilizer companies. Applying 7.5x, 6.0x, and 4.5x multiples to our potash, phosphate and nitrogen EBITDAs respectively, and adjusting for debt and adding the value of investments of $19/share, we derive our new price target of $105.

Highlights (US$m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	4,763.96	8,989.49	6,889.03	9,269.65	9,943.31
EBIT (UBS)	1,533.19	4,175.63	3,445.00	5,073.42	5,458.64
Net Income (UBS)	1,121.63	3,448.01	2,708.12	3,652.64	3,868.66
EPS (UBS, US$)	3.46	10.86	8.94	12.06	12.77
Net DPS (UBS, US$)	0.30	0.40	0.40	0.40	0.40

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	20.9	46.5	50.0	54.7	54.9
ROIC (EBIT) %	18.3	56.0	40.1	49.0	44.6
EV/EBITDA (core) x	10.0	9.7	5.8	4.7	4.1
PE (UBS) x	25.4	14.0	9.3	6.9	6.5
Net dividend yield %	0.8	0.3	0.5	0.5	0.5

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$83.52 on 25 Mar 2009 19:40 EDT

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Global Equity Research

Americas

Chemicals, Specialty

12-month rating	Buy * *Unchanged*
12m price target	US$105.00 *Prior:US$95.00*
Price	US$83.52

RIC: POT.N BBG: POT US

Trading data

52-wk range	US$239.50-49.60
Market cap.	US$24.7bn
Shares o/s	295m (COM)
Free float	100%
Avg. daily volume ('000)	1,865
Avg. daily value (US$m)	145.9

Balance sheet data 12/09E

Shareholders' equity	US$7.18bn
P/BV (UBS)	3.4x
Net Cash (debt)	(US$1.79bn)

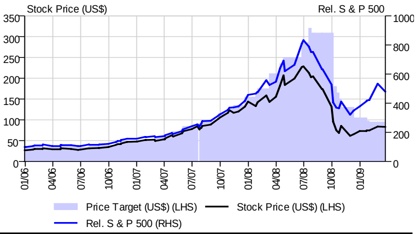
Forecast returns

Forecast price appreciation	+25.7%
Forecast dividend yield	0.5%
Forecast stock return	+26.2%
Market return assumption	6.2%
Forecast excess return	+20.0%

EPS (UBS, US$)

	12/09E			12/08
	From	To	Cons.	Actual
Q1E	0.83	0.65	0.87	1.66
Q2E	2.66	2.32	2.78	2.82
Q3E	2.99	2.41	3.17	3.86
Q4E	4.60	3.55	3.46	2.56
12/09E	11.08	8.94	*10.49*	
12/10E	11.94	12.06	*12.44*	

Performance (US$)



Source: UBS

* Exception to core rating bands; See page99

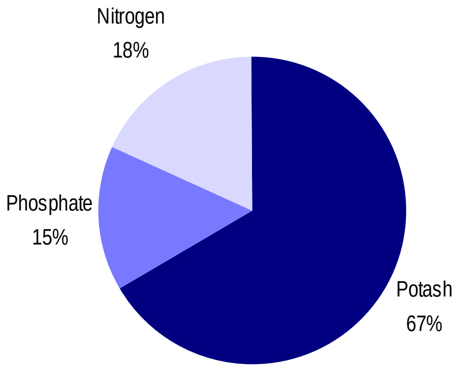
Potash Corporation

Company Overview

Potash Corp. is the leading North American fertilizer producer of potash, nitrogen, and phosphate products.

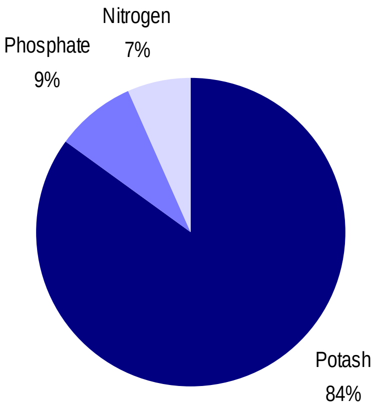
The company serves agriculture, animal feed, and industrial markets. POT's production facilities account for ~20% of global production capacity. The company's sales are 67% potash, 18% nitrogen, and 15% phosphates—however more than 80% of profits are generated by the potash segment. Potash's phosphate exports are marketed through PhosChem, a US based phosphate export association and its potash is exported by Canpotex, the association of Saskatchewan potash exporters. POT also has a potash mine in New Brunswick that serves South America. Approximately two thirds of POT's nitrogen is produced in Trinidad and sold into the US Gulf region.

Chart 124: Revenue by segment 2009E



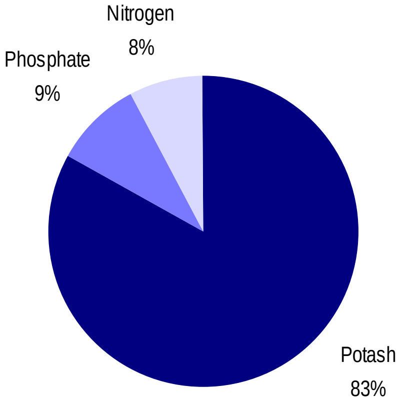
Source: Company filings and UBS estimates

Chart 125: Operating profit by segment 2009E



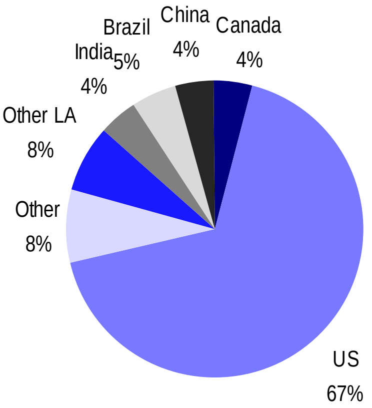
Source: Company filings and UBS estimates

Chart 126: EBITDA by segment 2009E



Source: Company filings and UBS estimates

Chart 127: POT's sales by end segment 2007 Actual



Source: Company filings and UBS estimates

UBS Investment Research

Agrium Inc.

Refocusing on Nitrogen?

■ CF acquisition would double Agrium's nitrogen mix

Agrium's strategic focus over the last several years involved building up its retail business to shift its business mix away from the low-multiple more volatile nitrogen industry. Nitrogen has gone from 46% of total gross profit in 2004 to under 20% as Agrium built up its retail businesses and expanded its potash and phosphate operations. The CF bid if successful would largely reverse this positive mix shift.

■ Retail business has turned more volatile

The retail and wholesale distribution business has been viewed as a more stable business than the production of nitrogen, phosphate, and potash. However with the sharp decline in fertilizer prices over the last six months many dealers have taken significant losses on their inventory positions. While Agrium has historically been astute in their purchases we believe that there is an increased risk of inventory losses particularly in potash.

■ Higher bid for CF is likely

Agrium has historically shown itself to be a persistent bidder in acquisition situations. CEO Mike Wilson has stated he would consider raising his offer for CF to reflect additional value that CF's board and management can demonstrate arising from the combination of the two

■ Valuation—$40 Price target and Neutral rating

We derive our $40 price target by applying a 5x multiple to our cash flow per share estimate of $7.93. Given the implied return we rate the shares Neutral. While a sum-of-parts analysis suggests a higher valuation if Agrium is successful in its bid for CF we believe investors will assign a nitrogen multiple to the combined entity.

Highlights (US$m)	12/07	12/08	12/09E	12/10E	12/11E
Revenues	5,269.52	10,031.60	10,415.63	11,473.46	11,354.34
EBIT (UBS)	715.16	2,250.23	2,066.96	1,779.01	1,771.94
Net Income (UBS)	422.90	1,628.21	1,321.27	1,111.97	1,118.52
EPS (UBS, US$)	3.11	10.27	6.21	5.23	5.26
Net DPS (UBS, US$)	0.11	0.11	0.11	0.11	0.11

Profitability & Valuation	5-yr hist av.	12/08	12/09E	12/10E	12/11E
EBIT margin %	10.5	22.4	19.8	15.5	15.6
ROIC (EBIT) %	26.3	53.6	27.0	19.2	19.4
EV/EBITDA (core) x	6.1	4.8	2.9	3.5	2.9
PE (UBS) x	17.6	6.6	6.3	7.5	7.5
Net dividend yield %	0.6	0.2	0.3	0.3	0.3

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$39.24 on 25 Mar 2009 19:13 EDT

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Global Equity Research

Americas

Chemicals, Specialty

12-month rating	Neutral * *Unchanged*
12m price target	US$40.00 *Unchanged*
Price	US$39.24

RIC: AGU.N BBG: AGU US

Trading data	
52-wk range	US$112.45-23.31
Market cap.	US$6.20bn
Shares o/s	158m (COM)
Free float	100%
Avg. daily volume ('000)	674
Avg. daily value (US$m)	23.9

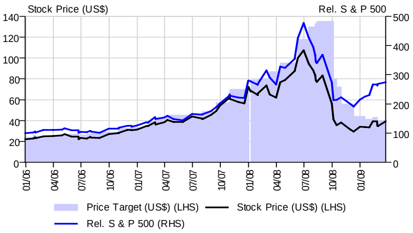
Balance sheet data 12/09E	
Shareholders' equity	US$7.43bn
P/BV (UBS)	1.1x
Net Cash (debt)	(US$1.88bn)

Forecast returns	
Forecast price appreciation	+1.9%
Forecast dividend yield	0.3%
Forecast stock return	+2.2%
Market return assumption	6.2%
Forecast excess return	-4.0%

EPS (UBS, US$)

	12/09E		12/08
	UBS	Cons.	Actual
Q1E	0.43	0.38	1.23
Q2E	2.47	2.89	4.01
Q3E	1.85	1.40	2.31
Q4E	1.45	1.46	2.54
12/09E	6.21	*6.36*	
12/10E	5.23	*7.11*	

Performance (US$)



Source: UBS

* Exception to core rating bands; See page99

Appendix A

2009 Corn Calendar

		Planting Season		Plant Growth and Formation			Dry-Down and Harvest	
	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct
Corn Growth Cycle		Planting season begins. (Mid-April through end of May)			Tasselling and Silking (First week of July)	Filling	Drying-down	Harvest
USDA Reports Other News	Mar 31: Prospective Planting	Apr 9: First Crop Progress Report *Weekly report monitors planting progress and then crop development until October.* Speculation on Planting Figures (Late March through early June)		June 30: Acreage Report *Acreage planted.*	Speculation on Yields (June through July)	Aug 12: Crop Production *Harvest status and forecasts.*	Sept 12: Crop Production *Harvest status and forecasts.*	Oct 10: Crop Production *Harvest status and forecasts.*
Northern Corn Belt Weather Norms *(30-year daily average temperature by month and average monthly rainfall)*	Temp: 53° Rainfall: 3.5”	Temp: 61° Rainfall: 3.8”	Temp: 69° Rainfall: 4.0”	Temp: 76° Rainfall: 4.0”	Temp: 79° Rainfall: 4.0”	Temp: 78° Rainfall: 3.5”	Temp: 73° Rainfall: 4.3”	Temp: 61° Rainfall: 4.2”
Seasonal Risks		Flooding before seeding: Delays planting. Flooding after seeding: Kills whole plant. Overly cool temperature: Slows plant growth.		Short rainfall: Serious seed-count reduction. (Mid-June through mid-July)	Corn rootworm beetle feeding on silks. Hail can strip the silks and husks from the cob.	Environmental stresses during this time reduce kernel size and weight. Risk diminishes as kernels mature.	Early hard frost: Slows drying-down of starch in kernels.	Harvesting before drying-down is complete: Corn is not safe for storage.
What Happened in 2008?	2008 planted acreage was 86.0 million, consistent with the Prospective Planting Survey and 8% below 2007 plantings.		Cold, wet spring leads USDA to forecast reduced corn production and 5.6% stocks-to-use			Harvested acres were 78.6 million acres, or approximately 91% of plantings.	Ideal growing conditions produced the 2nd largest corn crop in 64 years after 2007.	Average corn yield was 153.9 bushels per acre.

Statement of Risk

We point to investors the potential risks including, but not limited to, the volatile nature of commodities prices which could potentially be significantly different from expectations. Other risks including political, financial and operational risks, which all have the potential of significantly impacting company/industry performance.

Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	**Rating Category**	**Coverage**[1]	**IB Services**[2]
Buy	**Buy**	53%	36%
Neutral	**Hold/Neutral**	36%	34%
Sell	**Sell**	10%	20%
UBS Short-Term Rating	**Rating Category**	**Coverage**[3]	**IB Services**[4]
Buy	**Buy**	less than 1%	43%
Sell	**Sell**	less than 1%	22%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2008.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	**Definition**
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are:
Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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UBS Securities LLC: Don Carson; David Silver; Arun Viswanathan, CFA; Jana Galan.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Agrium Inc.[2a, 2c, 4a, 4b, 16, 20]	AGU.N	Neutral (CBE)	N/A	US$39.24	25 Mar 2009
CF Industries Holdings, Inc.[16, 19]	CF.N	Not Rated	N/A	US$73.22	25 Mar 2009
Intrepid Potash Inc[16]	IPI.N	Not Rated	N/A	US$19.31	25 Mar 2009
Mosaic Co[2b, 16]	MOS.N	Not Rated	N/A	US$45.47	25 Mar 2009
Potash Corporation of Saskatchewan Inc.[2a, 4b, 16, 20]	POT.N	Buy (CBE)	N/A	US$83.52	25 Mar 2009
Terra Industries Inc.[6, 7, 16]	TRA.N	Not Rated	N/A	US$28.66	25 Mar 2009

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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The analyst responsible for this report has reviewed the material operations of the issuer and/or met with senior management.

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